FOREWORD

The UK Central Hub in Solihull is one of the country's most strategically important development sites and one of the region’s major drivers of economic growth. The ambition is to create a globally-renowned and internationally-connected destination for business, leisure and living, facilitated by the Urban Growth Company (UGC) with support from local, regional and central Government. The UGC is a special-purpose delivery vehicle created to realise the full economic potential of The Hub which already comprises Birmingham Airport, the National Exhibition Centre (NEC), Jaguar Land Rover, Birmingham Business Park and Arden Cross, which will be home to the new HS2 Interchange Station.

The UGC – supported by Solihull Metropolitan Borough Council (SMBC) and the West Midlands Combined Authority (WMCA) – will coordinate and facilitate the infrastructure investment and development at The Hub to create a major engine for economic growth on a regional and national scale.

In March 2017, the UGC published its 20-year vision and plan for The Hub in its ‘Growth and Infrastructure Plan’ which predicts the creation of up to 77,500 jobs, 4,000 homes, 775,000 sq metres of commercial space and £4.1bn GVA as a result of coordinated infrastructure investment and development.

This level of public sector investment in infrastructure will inevitably generate a wide range of economic and social benefits for a variety of beneficiaries across Solihull and the wider region.

‘Value Capture’ is the concept of capturing the benefits generated by this sort of investment in infrastructure, to either finance the infrastructure itself, or to re-invest in other socially beneficial ways.

And while a range of approaches has already been developed to capture this sort of value, those approaches are not always consistent, comprehensive or co-ordinated.

As such, the WMCA has asked the UGC to develop a comprehensive framework and mechanism for value capture, which can be applied elsewhere in the West Midlands.

This Value Capture Framework is different because it recognises that ‘one size doesn’t fit all’. Instead it highlights all the different, potential options ranging from commercial, fiscal and planning mechanisms to voluntary business contributions and user charges.

It also suggests a methodology for selecting the most appropriate options to create bespoke value capture packages.

The ambition is that this framework and toolkit can be used to identify how to maximise the value of any infrastructure project in the West Midlands. Indeed, central Government has expressed an interest in this framework and toolkit with a view to implementing the methodology on a nationwide basis.

The UGC has also prepared a Framework Plan, Infrastructure Investment Appraisal and Strategic Business Case, to build the detail behind the ambitious growth strategy, along with this Value Capture Framework and accompanying toolkit.

“As Chair of the Urban Growth Company, I’m very pleased to publish this value capture framework and toolkit. This is a piece of work which has the potential to make a huge contribution towards funding infrastructure in the West Midlands and further afield.

“The UGC team, led by Managing Director, Huw Rhys Lewis, has worked hard to produce this important piece of work which identifies not just how to capture economic value but, crucially, the social benefits too. That’s vital for The Hub which is set to be a mixed-use, sustainable, new destination to rival any in the world.”

NICK BROWN,
CHAIRMAN,
URBAN GROWTH COMPANY
1. INTRODUCTION
1.2 VALUE CAPTURE: THE CONTEXT
1.3 VALUE CAPTURE FRAMEWORK AND TOOLKIT
1.4 IMPLEMENTING THE VALUE CAPTURE FRAMEWORK
1.5 CONCLUSION
Major infrastructure improvements have the potential to generate a wide range of benefits. In many cases land/property owners, developers and occupiers will benefit from unearned increases in value due to the public sector’s investment in infrastructure. However, there is no consistent, comprehensive or co-ordinated approach to capturing this enhancement to either fund the infrastructure itself or for re-investment in other socially beneficial ways.

Consequently, the West Midlands Combined Authority (WMCA) asked the Urban Growth Company (UGC) to commission a research report (Infrastructure Investment and Value Capture – see Part 2 of this report) to explore the potential to develop a comprehensive framework and mechanism for value capture. Based on the results of this study, this document sets out the WMCA’s Value Capture Framework and explains how it should be applied. In addition, a spreadsheet tool has also been created to allow initial assessments of the potential to capture value. To deliver the WMCA’s ambitious vision, it will need to ensure that its relatively limited direct investment resources are, wherever possible, recycled and lever significant amounts of private investment. Therefore, value capture should be an important, but not the only, source of funding for transport projects.

1. There is a strong rationale for the public sector to capture income or value that is created by new infrastructure but is unearned by the beneficiary, although various issues exist in terms of efficient and equitable value capture mechanisms. These issues include, among other things, the identification of the groups from which value should be captured, the scale and nature of the increase in value, the proportion of value increase that it is reasonable to capture, while still incentivising development activity, and the ability of the beneficiary to pay.

There are several UK and international examples where value capture techniques have been successfully applied, such as Crossrail in London and the South East. However, there is no consistent approach and there are a variety of potential value capture mechanisms, ranging from commercial to fiscal (tax-based) devices. Work for Transport for London (TfL) concluded there are four key lessons from past value capture experience:

- Direct capture is more effective for new developments whilst taxation methods are more suitable for existing assets;
- A systematic approach across a programme is more effective than an individual project approach;
- Approaches should aim to balance the capture on existing stock and new developments; and value capture should be an important, but not the only, source of funding for transport projects.

The scale and nature of benefits (and costs) will vary substantially depending on the infrastructure investment. Therefore, there is no single favoured mechanism or package of mechanisms – rather a ‘toolbox’ of potential appropriate approaches has been identified - comprising:

- **Commercial mechanism** – including the use of legal / development agreements, public sector assets, ransom strips, ground rents/service charges, and Joint Venture arrangements;
- **Planning and highway legislation mechanism** – planning and highway obligations (including Section 106 and Section 278 agreements) and Community Infrastructure Levy (CIL) contributions;
- **Voluntary business contributions** – such as through Business Improvement Districts;
- **User charges**; and
- **Fiscal mechanism** – the use and application of existing or new/amended mechanisms to capture additional tax receipts, including in some cases (such as Stamp Duty Land Tax) the proposed local retention (or hypothecation) of a proportion of the additional tax income.

Figure 1 sets out the Value Capture Framework and the main components of the toolkit. The toolkit is sub-divided between new and existing development/activities, the type of mechanism or approach (commercial, planning/highway, voluntary, user and/or fiscal mechanisms); and existing or new/amended mechanisms. In total 21 potential tools or mechanism are identified.

The approach to value capture will be bespoke to particular projects and packages. However, it is proposed that the following method is adopted to selecting the most appropriate tools:

1. Identify the anticipated beneficiaries, scale and type of impact, and primary area of impact;
2. Identify whether the main beneficiaries are new or existing activities and whether the uses are housing or employment/specific other uses; and
3. Using the Value Capture Framework and spreadsheet tool (which is available separately) assess the potential for value capture associated with each main beneficiary working through the mechanisms from the top to the bottom of the Framework. Often only a few mechanisms will be relevant and appropriate.

Transport appraisals or business cases for the proposed infrastructure will be an important source of information regarding these issues.
1.3.1 EXISTING COMMERCIAL MECHANISMS

- Legal/development agreements (new developments/activities) – the public sector may enter into an agreement with a developer potentially following a procurement process to contribute to infrastructure costs. This would be on a negotiated basis and the contribution would need to reflect – following negotiations – the anticipated enhancement in value. This is likely to involve the comparison of ‘with and without’ infrastructure development appraisals. In some cases, the agreement may be in the form of an overage arrangement – whereby the public sector benefits from any excess profit or surplus, above an agreed base figure.
- Joint Venture (new developments/activities) – the public sector may enter into a joint venture with a developer, whereby the investment in some (or all) of the cost of infrastructure is treated as equity. In this case, rather than receive an agreed sum the public sector will share the risk and reward associated with a development by participating in the equity of the project. All or part of the public sector investment in the relevant infrastructure may – together with any additional investment made directly by the public sector into the project – form an equity stake.
- Ground rent/service charge (new developments/activities) – a further mechanism may be to establish agreements for ground rent/service charge payments from developers or directly from owners to contribute to the cost of infrastructure and its maintenance. Alternatively, a tariff-type approach could be agreed – for example, with a charge paid on each new dwelling.
- Public sector assets (new and existing developments/activities) – where the value of public sector land (or other assets) is increased through improvements in infrastructure, the increase in value once realised could be used to fund (or reimburse) the cost of the works. The public sector may then directly develop or commission development to maximise its return, although the level of risk will be much greater.
- Compulsory Purchase (new developments/activities) – Compulsory Purchase Orders could be used to bring land into public ownership to facilitate comprehensive redevelopment and thus increase land values for all parties, which would then be available for value capture. In such cases, the infrastructure may well form part of a wider regeneration programme.
- Ransom strips (new developments/activities) – payment could be sought from adjacent land owners/developers to access the new infrastructure through ‘ransom strips’ – a parcel of land needed to access a property, commonly a development site.
- Utilities companies (new developments/activities) – the public sector may seek to agree a joint approach with utilities companies in order to forward fund strategic utilities infrastructure and then secure reimbursement through future revenue income. For example, this might include the creation of a Multi-Utilities Service Company (MUSCo). A MUSCo can potentially provide a single point of service to multiple utilities and profits from service delivery.
- Operational performance agreement (existing developments/activities) – in existing circumstances, existing businesses could contribute directly to improvements. This could be linked to the performance of the business, such as an increase in visitors or output. An operational performance agreement could, for example, be applied in the form of a car parking levy or precept on parking charges in agreement with private operators that attract significant numbers of users. Another possible mechanism could be a charge levied directly on users which would fund relevant infrastructure improvements.

1.3.2 EXISTING PLANNING MECHANISMS

- Planning and highway agreements such as Section 106/Section 278 (new developments/activities) – Planning agreements are designed to mitigate the impact of a development on the existing area or public sector/community resources. They may only constitute a reason for granting planning permission if they meet the tests that they are necessary to make the development acceptable in planning terms, directly related to the development, and fair and reasonable in relation to the scale and type. Highway agreements concern modifications to the wider network to facilitate or service a proposed development. Through the negotiation of appropriate planning or highway agreements, developers can make direct contributions to the cost of infrastructure (to reimburse costs already incurred by the public sector). It is important to ensure that contributions contained within planning agreements are sufficient to deliver the required infrastructure.
agreements are monitored and collected.

Community Infrastructure Levy, CIL (new developments/activities) — The Community Infrastructure Levy is a planning charge to help deliver infrastructure to support the development of a local authority area. It is a mechanism to pool contributions from a number of developments to fund works or initiatives that would be beyond the potential of individual schemes. Local planning authorities can choose to set a charge in their area. Revenue raised through CIL could be used for (or reimburse) the cost of infrastructure subject to local policy. However, the status and provisions of CIL policies vary significantly between local authorities.

1.3 VOLUNTARY BUSINESS CONTRIBUTIONS

• Business Improvement Districts (BIDs) including thematic BIDs (new and existing developments/activities) — businesses in an area could agree voluntarily to contribute to the cost of local infrastructure. This is most likely to be through the creation of a BID, following a ballot process of existing businesses within a defined area and in which a levy is charged on all business rate payers in addition to the business rates bill. This levy is used to develop projects which will benefit businesses in the local area.

1.3.4 EXISTING FISCAL/GOVERNMENT MECHANISMS

• Business Rates (new and existing developments/activities) — Business rates are charged on most non-domestic properties, subject to various reliefs. If infrastructure improves an area so that more businesses locate there and/or business rates locally can be retained locally and used (in part or full) to fund the new infrastructure. This would often be based on a Tax Increment Finance (TIF) type model with the capital sum being borrowed and repayment made through the business rates. This could be based on the current arrangements whereby a proportion of the business rates income is retained locally by the local authority (currenly 20%). However, reforms are planned and it is proposed that local authorities may be given the ability to retain 100% of business rates locally subject to some redistribution. Alternatively, full local retention could be achieved through the designation of an area as an Enterprise Zone (see below).

New Homes Bonus (new developments/activities) — The New Homes Bonus (NHB) seeks to encourage local authorities to grant planning permissions for the building of new homes in return for additional revenue. Part or all of any NHB generated could be used to meet the cost of infrastructure. Again, a TIF type approach could be used.

Council Tax (new and existing developments/activities) — Council Tax is a tax on domestic property. Each property is assigned to one of eight bands (A to H) based on property value, and the tax is set as a fixed amount for each band. It may be appropriate in certain circumstances to hypothecate a percentage contribution from properties of, say, higher bands to contribute to the cost of infrastructure. However, this is unlikely to be an acceptable approach except in very specific circumstances.

Workplace Parking Levy (new and existing developments/activities) — it may also be appropriate within a specific area or zone to consider implementing a workplace parking levy — a type of congestion charging scheme - to generate funding for investment in sustainable transport. This would be a levy on employers who provide workplace parking.

1.3.5 EXISTING FISCAL/GOVERNMENT MECHANISM REQUIRING SPECIFIC DESIGNATION OR APPROVAL

Toll or user charges (new and existing developments/activities) — another potential option would be to introduce a toll or user charge for infrastructure that would not normally be subject to user charges (such as a road or bridge), which would be used to fund the costs or repay any borrowings.

Business Rates Precept — specific zone or wider area (new and existing developments/activities) — a precept could be added to the existing Business Rates to help fund the costs of finance for borrowing. As part of the West Midlands Combined Authority Devolution Agreement, the Government has provided the Mayor of the West Midlands with supplementary business rates to fund infrastructure

Enterprise Zone (new developments/activities) — these are designated areas across England that provide tax allowances and government support. In addition, all business rates growth generated in an Enterprise Zone is kept locally for 25 years to reinvest in local economic growth. For example, as part of the West Midlands Combined Authority Devolution Agreement, the Government approved the business case for a significant extension to the Enterprise Zone at Curzon Street in order that the funding raised through these mechanisms can support the delivery of the HS2 Growth Strategy.

1.3.6 EXISTING FISCAL/GOVERNMENT MECHANISM REQUIRING SPECIFIC DESIGNATION OR APPROVAL

Stamp Duty Land Tax (SDLT) retention (new and existing developments/activities) — SDLT is payable on the purchase of a property or land over a certain threshold price. All, or a proportion, of it could be retained locally to fund infrastructure subject to Government consent. This would directly capture some of the uplift where land and premises are transacted.

Capital Gains Tax (CGT)/Chargeable Gains retention (new and existing developments/activities) — Capital Gains Tax (CGT) is a tax on the sale of an asset that has increased in value. Limited companies do not pay CGT, but are liable to pay Corporation Tax on the profit (chargeable gains) from selling or disposing of an asset. The land and property component of CGT and Chargeable Gains could potentially be ‘retained’ within an area. However, this would present significant administrative issues and it would be difficult to associate specific gains and payments to particular sites and premises within an area. Consequently, this is unlikely to be an appropriate mechanism without significant changes.

Air Passenger Duty (existing developments/activities) — a proportion of this excise duty, which is charged on the carriage of air passengers, could be hypothecated and retained to fund infrastructure that benefits local areas.

Capital allowances/tax relief (new and existing developments/activities) — there is potential to consider adopting existing, or creating new, Capital Allowance or tax relief based schemes to support infrastructure investment by the private sector. These could be based on the previous Business Premises Renovation Allowance (BPRA) and/or current Land and Remediation Relief (LRR) and/or Direct Land Tax Credit. BPRA was a 100% tax allowance for certain spending on the conversion or renovation of unused qualifying business premises in a disadvantaged area. LRR is a Corporation Tax relief which can provide up to 150% relief on the cost of infrastructure investment. Capital Allowance or Relief scheme could be developed. This could stimulate demand and incentivise direct investment in infrastructure by the private sector.

Tourism/hotel and sales tax (new and existing developments/activities) — Various countries and cities charge a tax on tourists or travellers on accommodation costs. In addition, in some cases local sales taxes – tax paid to a governing body for the sale of certain goods and services — are also levied. Therefore, for example, where the infrastructure was expected to benefit the visitor and leisure economy in particular, it may be appropriate to consider creating a tourism or hotel tax.

Gambling Duties (new and existing developments/activities) — Gambling Duties are payable on various gaming and betting activities. For example, a Workplace Parking Levy — a type of congestion charging scheme - to generate funding for investment in sustainable transport. This would be a levy on employers who provide workplace parking.

2 TIF uses future additional revenue gains from taxes to finance the borrowing required to fund public infrastructure improvements that will in turn create those gains.
### 1.4 Implementing the Value Capture Framework

Having identified the package of potential mechanisms, the public-sector partners will need to set up and implement the relevant components of the Framework. The actions required will vary significantly depending on the specific ‘tools’ chosen.

In the case of existing commercial and planning mechanisms, these are generally well understood and the approach to implementing them well established. However, for new mechanisms, substantial discussions will be required with central government before these can be agreed.

Table 1 sets out a summary of the key activities required to set up and implement each of the potential mechanisms.

<table>
<thead>
<tr>
<th>Option</th>
<th>Actions required to implement</th>
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<tbody>
<tr>
<td><strong>EXISTING COMMERCIAL MECHANISM</strong></td>
<td></td>
</tr>
<tr>
<td>Legal/development agreements</td>
<td>- Ensure appropriate powers identified (e.g. Localism Act 2011, Local Government Act 1992) and powers are exercised appropriately; subject to compliance with procurement regulations, State aid, fiduciary and best value considerations</td>
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<tr>
<td></td>
<td>- Undertake development/financial appraisal to determine appropriate level of contribution</td>
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<tr>
<td></td>
<td>- Negotiate with the relevant parties</td>
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<td></td>
<td>- Secure necessary public-sector approvals prior to entering into a legal/development agreement</td>
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<tr>
<td></td>
<td>- Prepare a draft and final legal/development agreement to capture the parties’ intentions</td>
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<td></td>
<td>- Monitor and enforce agreement</td>
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<tr>
<td>Incorporated Joint Venture (JV)</td>
<td>- A detailed analysis is required to confirm the need for an incorporated (JV) and its relative merits. Legal review needed of the statutory powers of the public-sector body on a case-by-case basis to determine its ability to enter into a JV</td>
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<tr>
<td></td>
<td>- Undertake feasibility work, financial appraisal and due diligence in relation to the proposed JV partner(s)</td>
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<td></td>
<td>- Negotiate with the relevant parties</td>
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<td></td>
<td>- Prepare a tender or call for tenders</td>
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<td></td>
<td>- Prepare a draft and final JV shareholders’ agreement and memorandum and articles of association and establish corporate vehicle</td>
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<td></td>
<td>- Manage JV – including ensuring appropriate Board members with relevant skills to ensure the venture’s success and appropriate governance arrangements are operated</td>
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<tr>
<td><strong>PUBLIC SECTOR ASSETS/ COMPULSORY PURCHASE ORDER (CPO) DEVELOPMENT</strong></td>
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<tr>
<td>Local authority ransom strips</td>
<td>- Local authorities have various statutory CPO powers, including for regeneration and planning, and highways objectives (among others)</td>
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<tr>
<td></td>
<td>- Undertake feasibility work, financial appraisal and due diligence in relation to the proposed project/programme</td>
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<tr>
<td></td>
<td>- Prepare suitable business case for the appropriate scheme and secure necessary public-sector approvals to pursue CPO or implement the project/programme</td>
</tr>
<tr>
<td></td>
<td>- Action CPO and/or implement the project/programme</td>
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<tr>
<td><strong>Ransom strips</strong></td>
<td>- Local authority ransom strips can be created for future value for example through highway works or land assembly as well as through historic ownership</td>
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<tr>
<td></td>
<td>- Retain strips of land adjacent to the infrastructure for subsequent disposal to developers/purchasers</td>
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<tr>
<td><strong>OPERATIONAL PERFORMANCE AGREEMENTS</strong></td>
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<tr>
<td></td>
<td>- A contractual relationship would enable a performance agreement to be negotiated and agreed. Voluntary agreement may be possible in a non–contractual situation</td>
</tr>
<tr>
<td></td>
<td>- Undertake financial appraisal to determine appropriate level of contribution</td>
</tr>
<tr>
<td></td>
<td>- Negotiate with the relevant parties regarding the performance measure and associated contribution levels</td>
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<tr>
<td></td>
<td>- Secure the necessary public-sector approvals prior to entering into a legal agreement</td>
</tr>
<tr>
<td></td>
<td>- Prepare draft and final agreement</td>
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<tr>
<td></td>
<td>- Monitor and enforce agreement</td>
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</tbody>
</table>

**Table 1: Review of Potential Mechanism**
### Actions required to implement

<table>
<thead>
<tr>
<th>Option</th>
<th>Actions required to implement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing fiscal/government mechanisms requiring specific designation/approval</strong></td>
<td></td>
</tr>
<tr>
<td>Toll or user charge</td>
<td>• The Local Government Act 2003 (s 9) provides a potential basis on which local authorities can charge for services. However, appropriate provision would need to be clarified on a case by case basis.</td>
</tr>
<tr>
<td>Enterprise Zone</td>
<td>• There are formal powers for Enterprise Zones through Designation Orders under the Local Government, Planning and Land Act 1990.</td>
</tr>
<tr>
<td>Business Rates precept (specific zone or wider area)</td>
<td>• The Business Rates Supplement Act 2009 provides a discretionary power for certain authorities to levy a supplement on the national business rate to promote the economic development of their local area</td>
</tr>
<tr>
<td><strong>Potential new mechanisms</strong></td>
<td></td>
</tr>
<tr>
<td>Stamp Duty Land Tax</td>
<td>• Stamp Duty Land Tax (SDLT) is levied on all purchases of property or land (currently over £150,000 for residential properties and £150,000 for non-residential land and properties) in England, Wales and Northern Ireland.</td>
</tr>
<tr>
<td>Capital Gains Tax (CGT)/Chargeable gains</td>
<td>• Capital Gains Tax (CGT) is levied on profits on disposal of property (other than a principal residence) including business premises and land (currently at 28% on the uplift value of residential property, and at 22% for other chargeable assets).</td>
</tr>
<tr>
<td>Air Passenger Duty (APD)</td>
<td>• Air Passenger Duty is an excise duty levied by HMRC on operators of fixed wing aircraft flying from any airport in the UK for each chargeable passenger that is carried. Rates are based on 2 tax bands and 3 classes of travel.</td>
</tr>
<tr>
<td><strong>Capital Allowances/Tax Relief</strong></td>
<td></td>
</tr>
<tr>
<td>Tourism/hotel and other sales taxes</td>
<td>• A ‘tourist bed tax’ could be levied on a per person per night basis, and is a common feature of European and other destinations. Local sales taxes are also a common feature in Europe and the USA, and have been considered over a period of more than 20 years in the UK. Legislation would be required.</td>
</tr>
<tr>
<td>Gaming Levy</td>
<td>• Gaming Duty is paid on casino gaming profits where gaming takes place in the UK, and paid on the gross gaming yield of premises (not on machine game play).</td>
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</tbody>
</table>

**1.5 CONCLUSION**

Properties and occupiers served by, or adjacent to, new infrastructure may benefit substantially from such facilities. If they do not contribute appropriately to the costs of the infrastructure, these increases in value will be unearned. The WMCA has therefore developed this Value Capture Framework and toolkit to capture an appropriate proportion of this enhanced value. The additional local resources generated will be used to fund further infrastructure to support the growth of the West Midlands economy.
2. INFRASTRUCTURE INVESTMENT AND VALUE CAPTURE

2.1 INTRODUCTION
2.2 THE BENEFITS AND COST OF INFRASTRUCTURE
2.3 CURRENT APPROACHES TO CAPTURING VALUE
2.4 OPPORTUNITIES FOR VALUE CAPTURE IN WMCA AND UKC HUB
2.5 VALUE CAPTURE TOOLKIT
2.6 CONCLUSIONS
COMPREHENSIVE FRAMEWORK AND MECHANISM FOR VALUE CAPTURE

The creation of new infrastructure, such as that proposed within the UK Central (UKC) Hub and elsewhere across the West Midlands, has the potential to generate substantial benefits to businesses and individuals. It can often result in improvements in land values close to the infrastructure and can also generate other significant positive impacts, such as improved business performance due to enhanced accessibility and agglomeration effects.

The nature and scale of these benefits (and to whom they accrue) will vary depending on the local circumstances. In many cases, public sector investment will result in a ‘free rider problem’, arising from the fact that a business or individual may be able to obtain the benefits of a good (in this case new infrastructure) without contributing to the cost or by contributing only marginally through general taxation. A range of approaches have been developed to attempt to redistribute costs and benefits, including appropriate compensatory mechanism which require beneficiaries to make contributions towards the cost of infrastructure. However, these approaches are at best inconsistent and in most cases, are not comprehensive or co-ordinated. Often, they have focused solely on land value and new developments. However, it is important to adopt a broader definition for the WMCA and UKC Hub to ensure that the full potential mechanisms to capture location-based value are explored.

The purpose of this report is to develop a comprehensive framework and mechanism for value capture in the West Midlands to support the delivery of the Midlands HS2 Growth Strategy and other major infrastructure proposals.

This report presents the case for capturing value, setting out the potential benefits and costs of infrastructure associated with major transport and other investments. A more detailed discussion of the case is set out in Appendix A. It also outlines the current approaches to capturing value and the opportunities for value capture in the West Midlands and the UKC Hub. The report then sets out a framework and ‘tool kit’ for value capture. The UKC Hub is used as an example of how the tool kit could be applied in practice.

More generally, the WMCA is considering wider fiscal devolution and ‘gain share’ arrangements in terms of other areas of public sector intervention, such as public services. These issues and potential mechanisms are outside of the scope of this assignment.
2.2 THE BENEFITS AND COSTS OF INFRASTRUCTURE

WIDE RANGE OF BENEFITS, AND COSTS, BUT ISSUES IN TERMS OF HOW VALUE BEST CAPTURED

Major infrastructure improvements have the potential to generate a wide range of benefits to residents, businesses and other parties within and outside the local area. In the long-run, the benefits involved are likely to be capitalised, to a large extent, in property values. Such improvements may have significant potential effects in unlocking some developments and in enhancing the viability and value of others. The value thus created represents an obvious potential target for value capture initiatives.

The benefit principle of taxation supports an approach of seeking to secure finance for improvements based upon the enhancement effects on development and property values, although establishing the extent of the enhancements and applying the principle successfully and fairly in relation to existing developments will raise some difficult issues.

NATURE OF BENEFITS AND COSTS

The major focus of the analysis of this section is on transport infrastructure investment although some of the same issues will arise in relation to other types of infrastructure scheme. For analytical purposes, it is useful to distinguish between impacts on residents and businesses already located within the area and impacts on potential new developments. However, this distinction may sometimes become blurred – for example, where improvements facilitate changes of use or the intensification of use of existing developed sites.

The ultimate pattern of incidence of any charges to finance infrastructure improvements may be significantly different from that of the charges themselves. For example, dependent upon the nature of the markets within which businesses operate, the costs involved may be borne by businesses in the form of reduced profitability, passed forward to customers in the form of higher prices or passed back to suppliers of premises, materials and/or to employees – or, most likely, potentially some combination of these.

IMPECTS ON EXISTING RESIDENTS AND BUSINESSES

RESIDENTS

1. Existing residents may benefit from improved accessibility to employment and social opportunities – the extent of this benefit will depend on the characteristics and personal circumstances of the residents involved and on the nature and extent of the accessibility benefits concerned in terms of journey time and reliability improvements.

2. Residents may also experience adverse local environmental costs – either directly or because of effects in generating or rerouting traffic. Conversely, some residents may see environmental benefits as people shift from car travel to public transport.

Over time, neighbourhoods which benefit from accessibility improvements are likely to see house prices rise as people who value the improvements move into the area, creating a potential capital gain to existing residents. Where property is rented, enhanced competition for property is likely to benefit owners to the possible net detriment of tenants.

BUSINESSES

Transport typically accounts for less than 5% of the total costs of most firms, implying that the general impacts on businesses of improved transport conditions will tend to be relatively limited:

1. Labour market effects – improvements potentially provide businesses with access to a wider pool of skills and may reduce the wage and salary levels which they need to offer to attract sufficient labour.

2. In-work travel costs – businesses will benefit from reductions in the time and/or monetary costs of in-work travel and/or improvements in reliability, although the significance of this will be limited where such costs are effectively passed on to customers.

Savings will typically be most important to:

• sales and servicing and other operations which depend upon access to customers by car;

• professional and business service activities requiring access - mostly by rail - to major urban centres.

3. Movement of goods – road improvements may reduce the costs to local firms of delivering goods, the costs to their suppliers of making deliveries and/or improve the predictability of delivery times. This will be most important to the distribution sector and to manufacturing businesses to which distribution costs are relatively significant and/or which operate just-in-time delivery arrangements.

4. Access to customers and visitors – transport improvements potentially increase the size of the customer and visitor populations which can access local businesses within particular time and, therefore, cost bands. This is particularly important to retail businesses and visitor attractions, as well as to the competitiveness of facilities such as the Airport and the NEC.

The impacts of transport improvements on businesses will not always be beneficial:

• same may see a deterioration in their local access or environment;

• some may experience increased competition in product markets or for skilled labour from firms elsewhere; and

• rentals and land values may increase as the area becomes more attractive to incoming firms.

IMPLICATIONS FOR FUNDING INFRASTRUCTURE IMPROVEMENTS

Transport improvements will often be crucial in:

• making development – or particular types of development – physically feasible or viable where this would not otherwise be the case, typically through providing, or improving, access to potential development sites; and

• overcoming actual or potential objections to development – or particular types of development / redevelopment – on highways or planning grounds.

Where property development would not otherwise be possible, the value of the site would be expected to increase by an amount reflecting the residual value of the development – i.e. the difference between the value of the property and its associated development costs (including the former value of the site concerned). Where some other form of profitable development would otherwise be possible/permissible, the enhancement effect will be the difference between the residual values of the most profitable developments which would be permissible with and without the improvements.

Even where development could proceed in much the same way in the absence of the improvements, the value of the development and the site concerned could be significantly enhanced because of the sorts of benefits to potential occupiers described above.

1. Equity aspects of funding infrastructure improvements through property focused instruments?

Two criteria are often used to assess the equity of potential taxes:

a). The benefit principle – that taxes should reflect the benefits which individuals and/or businesses derive from the expenditure which they are used to finance. HM Treasury has generally resisted hypothecated taxes. There is also a problem that, where it is known that this approach will be applied, those affected have a strong incentive to minimise the assessment of the benefit they receive, hoping to ‘free ride’ on the contributions of others. However, in the current context there are more significant merit in exploring the potential to hypothecate locally generated tax revenues – such the additional business rates generated within an Enterprise Zone - to fund the associated infrastructure investments.

In the case of potential developments which could not take place in the absence of the infrastructure concerned, it could be argued that the total potential profitability of the development (i.e. its residual value taking account of the best alternative use value of the land concerned, as noted above) represents a benefit from the enabling infrastructure which could potentially be ‘taxed away’.

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Major issues for consideration arise in relation to the treatment of the ‘hope value’ element in land prices which may well, for example, be significant within the UK Hub area. Basing any new charge on values which include this element would potentially limit the value which could be captured. However, assessing gains based upon existing use values could involve taxing existing owners on gains which have effectively been ‘banked’ by previous owners.

Establishing the benefits of infrastructure investments to developments which could go ahead without them or to existing developments may require significant research, particularly given the incentive to ‘free ride’ noted above. In the case of existing employment developments there is also a question of whether contributions could be varied to reflect the benefits to individual occupiers.

A substantial proportion of the benefits of major road infrastructure will accrue to people and businesses based outside the area and may not be potentially capturable. This creates issues for the practicability and fairness of seeking to finance such infrastructure through taxes based upon the benefit principle.

Capturing potential benefits from existing developments also encounters the problem that levying charges on existing occupiers would potentially involve a requirement to contribute on some people or firms who derive little or no benefit, levying charges on the landowner would potentially involve an obligation to contribute based upon a benefit which they may only be able to realise at a later date.

A potential variant would be to levy charges on major developments based upon the proportion of the future traffic growth on specific pieces of infrastructure for which they are expected to account. This would likely lead to substantial debate with those who could be required to contribute about the significance of their potential future traffic generation effects.

b) The ability to pay principle, Many – though not necessarily all – new developments will have some potential capacity to contribute to infrastructure costs. However, issues arise of:

- whether/how to vary the contributions required in light of likely differences in this capacity, and
- in the case of existing developments, the risk that requirements for significant contributions could create difficulties for occupiers.

2. The likely economic efficiency of such instruments?

The expectation that a substantial part of the cost of any property based tax will ultimately be borne by landowners in the long-run in the form of reduced rentals rather than by the occupiers is a potentially attractive feature of land taxes. Such taxes were also historically favoured on the assumption that ownership of land was a measure of wealth and because of the expectation that they could not be passed on to consumers and would not create incentives for behavioural change. However:

a) there is clearly potential for adverse short-term effects on occupiers if the tax is levied upon them, with risks some may be unable to pay and a likelihood that some (many) will effectively seek to pass on the tax, most likely though raising prices,

b) some developments which may be economically desirable because of their wider benefits to the UK and/or the local economies may be deterred; and

c) owners of potential development sites may well withhold them in the expectation of a less onerous tax regime and/or better returns in the future.

3. Influences on the potential for financing infrastructure requirements of the WMCA plans / the UKC Hub

Putting aside the issues of acceptability in political terms and legal feasibility, the key points are that:

- the planned scale of development and its likely dependence on major transport improvements, mean that there should be substantial scope to secure funding from new developments,
- establishing the benefits to existing residents and businesses – including in the case of the UKC Hub, the Airport and the NEC – and capturing this value is likely to be more challenging,
- a substantial proportion of the benefits of strategic highway improvements and of HS2 will accrue to people and businesses located outside of the area and capturing these would be still more challenging, if not impossible.

VALUE CAPTURE IS THE CONCEPT THAT GOVERNMENT MAY BE ABLE TO CAPTURE PART OF THE ECONOMIC VALUE GENERATED BY INVESTMENT IN INFRASTRUCTURE, TO EITHER FINANCE THE INFRASTRUCTURE ITSELF OR LEVER INVESTMENT TO PROVIDE FOR OTHER SOCIALLY BENEFICIALLY ASSETS

Value capture is an umbrella term for mechanisms that harness land and property value uplift and other improvements in business performance or user activity, where the agency responsible for the development of infrastructure captures part of the financial benefits gained by land owners, developers and/or occupiers.

There is a diversity of mechanisms available or potentially available, a number of which already exist – in particular through the planning system.

Other opportunities feature a more systematic implementation of taxes or charges for associated activities. One of the innovative aspects of value capture is the potential for the public sector to raise borrowings from future income streams, which are either service debt, thereby leveraging additional resources to meet the costs of the infrastructure itself, operational costs, or associated facilities. This is the essence of tax increment financing (TIF) mechanisms.

However, the current situation is complex, with a multiplicity of approaches being developed across various administrative jurisdictions and no single ‘one size fits all’ solution likely to be appropriate. Within the UK, important differences exist in how individual local authorities operate existing mechanisms, such as Community Infrastructure Levy (CIL) and Section 106 (StI6) Agreements, which currently affects potential joint value capture approaches.

RATIONALE FOR VALUE CAPTURE

Three sets of beneficiaries can be identified that gain from infrastructure investment – the public in general, direct users of the infrastructure, and property and business owners in the vicinity of the infrastructure. While the first and second groups contribute financially to infrastructure through general taxation and in some cases fares, the third group can experience sustained additional value from construction of new infrastructure over and above their benefits as citizens or travellers in the form of unearned income (or value) as a positive externality to which they have not contributed.

There is a consensus that this location-based added value - which would otherwise provide a windfall to particular private sector interests - should be captured instead, at least in part, for the public good.

The original meaning of the term value capture referred specifically to increases in land values. However, it can be applied more generally to any form of location-based value through taxation or charges.

While there is a rationale for the capture of unearned income (or value), key issues exist in terms of efficient and equitable value capture mechanisms. Issues include, among other things, the identification of the groups from which value should be captured, assessment of the increase in value, the proportion of value increase that it is reasonable to capture, and ability to pay.

An illustration of a fiscal-based value capture funding model is shown in Figure 3.

Here the incremental tax revenue is captured for a period to fund (or repay the cost of) the infrastructure which has enabled the local growth.
POTENTIAL VALUE CAPTURE MECHANISMS

In terms of potential mechanisms in the UK, an early study by the Scottish Executive (2003) undertook an assessment of eight alternative funding methods but, tellingly, no definitive recommendation of which funding method, if any, to pursue was made because of various uncertainties. The methods considered were: business rates levy; local authority business growth incentives; business improvement districts; land value taxation; greenfield development tax; freehold charges; planning gains; and buy-in charges.

It is clear that a variety of approaches to value capture have and are continuing to be considered. On an international level, a study of value capture mechanisms in six major cities in 2014 (London, Paris, Washington DC, New York, Montreal, and San Francisco) identified 11 separate types of schemes. The summary of value capture mechanisms in case study areas is shown in Table 2.

Value capture techniques have recently been used successfully as part of the funding package for Crossrail in London and the South East.

LESSONS IN APPLYING VALUE CAPTURE MECHANISMS

Work for Transport for London (TfL) concluded there are four key lessons from past value capture experience:

- direct capture is more effective for new developments whilst taxation methods are more suitable for existing assets;
- a systematic approach across a programme is more effective than an individual project approach;
- approaches should aim to balance the capture on existing stock and new developments; and
- value capture should be an important, but not the only, source of funding for transport projects.

It is clear that a variety of approaches to value capture have and are continuing to be considered. On an international level, a study of value capture mechanisms in six major cities in 2014 (London, Paris, Washington DC, New York, Montreal, and San Francisco) identified 11 separate types of schemes. The summary of value capture mechanisms in case study areas is shown in Table 2.

<table>
<thead>
<tr>
<th>London</th>
<th>Paris</th>
<th>Washington DC</th>
<th>New York</th>
<th>Montreal</th>
<th>San Francisco</th>
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<tbody>
<tr>
<td>Land value tax (business rates supplement)</td>
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<tr>
<td>Tax increment financing zone</td>
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<td>Joint development including infrastructure provision</td>
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<tr>
<td>Sale/lease of land</td>
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<tr>
<td>Sale/lease of development or air rights</td>
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<tr>
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<tr>
<td>Rail company diversification</td>
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<tr>
<td>Employer payroll tax</td>
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<td>Development fees (CIL or similar)</td>
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<td>Special assessment districts</td>
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TABLE 2: INTERNATIONAL EXAMPLES OF VALUE CAPTURE MECHANISMS

CONCLUSIONS

There is no agreed or consistent approach to capturing value. There are a number of UK and international examples where value capture techniques have been successfully applied. There are a variety of potential value capture mechanisms, which can be grouped into the following categories:

- commercial mechanism
- planning related mechanism
- voluntary business contributions
- user charges
- fiscal mechanism and leveraged borrowing

There is no single favoured mechanism and a packaged approach, bespoke to specific local circumstances is likely to be required based on each infrastructure investment or programme of investments.

WEST MIDLANDS COMBINED AUTHORITY

The WMCA has formulated a Strategic Economic Plan (SEP) for the West Midlands which proposes substantial investment in new infrastructure to unlock the economic potential of the area. It has identified a strategy for growth with challenging targets (including creating 500,000 extra jobs) and a range of priority areas. One of these areas is the HS2 Growth Strategy and within this the Interchange Station site in Solihull, which forms part of the UKC Hub. Lessons in applying Value Capture Mechanisms

ROLE OF VALUE CAPTURE IN DELIVERING WMCA VISION

- The SEP HS2 Growth Strategy and Investment Prospectus outline a significant programme of investment and development, much of which is underpinned by new or improved infrastructure.
- If the WMCA deliver its ambitious vision then it will need to ensure that its relatively limited direct investment resources are wherever possible, recycled and lever significant amounts of private investment. Consequently, value capture will need to be a core part of its approach to realising its vision.

MIDLANDS HS2 GROWTH STRATEGY AND UKC HUB

The Midlands HS2 Growth Strategy sets out the opportunities that the arrival of HS2 will afford the region. It aims to leverage the benefits delivered by HS2 to drive local growth on a nationally-significant scale over and above the construction of HS2, through targeted packages of interventions that are tailored to the local context. Its aim is to ultimately drive job creation, increase productivity and generate net national growth, such that the investment will pay for itself over time.

The West Midlands Devolution Agreement states that the HS2 Growth Strategy Implementation Plan will set out:

- a prioritised programme of projects and their milestones (Business Cases for individual projects);
- the input, output, outcome and benefit indicators that local partners will use to track delivery, and
- the Combined Authority resources being committed to ensure delivery.

Significant progress has been made in bringing forward the proposals for the UKC Hub. In particular, the creation of the Urban Growth Company (UGC) is now driving forward the scheme. Based on the emerging proposals from the partners, a Growth and Infrastructure Plan has been developed, co-ordinated by the UGC. This presents the development and delivery vision for the Hub and sets out what is proposed for each five-year period. It highlights the scale and quality of the opportunity and identifies key requirements.

The Growth and Infrastructure Plan sets out the need for significant new and upgraded infrastructure (including transport, utilities, social, environmental and other infrastructure) if the full potential of the area is to be realised. Three types of infrastructure have been identified:

- primary infrastructure – such as the M42 and HS2, which is the responsibility of Central Government;
- secondary infrastructure – which is the responsibility of the WMCA and its partners; and
- tertiary or site-specific infrastructure – required to deliver developments, which is the responsibility of the private sector but may involve some level of public sector investment.

The development of an effective value capture mechanism will be essential if this secondary and, in some cases, tertiary infrastructure is to be funded. Given the nature of the assets in the area, such as the Airport and the NEC, there are a number of mechanisms that could be considered, such as car parking levies or specific tax hypothecation.

The UGC will have a critical role to play in ensuring the necessary infrastructure is delivered in phases and value is captured.
2.5 VALUE CAPTURE TOOL KIT

VALUE CAPTURE MECHANISMS – THE TOOLKIT

The approach adopted to capturing value needs to be bespoke to the investments proposed. There are a number of key considerations which will determine the specific tools to be used, as follows:

1. **Beneficiaries** - identifying who benefits;
2. **Scale and type of impacts** - assessing the nature, scale and duration of the impacts on the beneficiaries.
3. **Area of impact** - defining an area over which the effects are expected to be reasonably significant. Since several of the mechanism will depend upon identifying a specific area, then this is a particularly important consideration, which can result in significant boundary effects.
4. **Ownership of land and development proposals** - the appropriate mechanism will also be dependent upon the pattern of land ownership and development/ re-development proposals. Where the public sector owns land, it is much easier to ensure that the uplift is maximised and captured. However, there are inevitable trade-offs between the level of risk, control and return. For example, a direct development by the public sector may well offer the potential for the greatest return and control, but would also have the highest level of risk.

The transport appraisals or businesses cases for the proposed infrastructure will be an important source of information regarding these issues. The mechanisms themselves can be classified in terms of whether they are commercial, planning related, user charges, voluntary business contributions or fiscal in nature. In addition, in some cases the tool already exists or has an established track record. In others, new or amended mechanisms may be required. The tools will also vary depending on whether they relate to new (N) or existing (E) development.

In many cases, a delivery vehicle or agency will be required to co-ordinate both the implementation of the infrastructure and the value capture mechanism. A long list of possible mechanisms were identified and assessed against four critical success factors: strategic fit, achievability, acceptability, and affordability (see Appendix 2). Initially, a range of potential, existing value capture mechanisms or tools have been identified as follows:

**EXISTING COMMERCIAL MECHANISMS**

- **Legal/development agreements (N)** - the public sector may (outside of the planning system) enter into an agreement with a developer to contribute to infrastructure costs.
- **Joint Venture (N)** - the public sector may enter into a joint venture with a developer, whereby the investment in some (or all) of the cost of infrastructure is treated as equity.
- **Ground rent/Service charge (N)** - a further mechanism may be to establish agreements for ground rent/service charge payments from developers or owners to contribute to the cost of infrastructure and its maintenance. Alternatively, a tariff-type approach could be applied.
- **Public sector assets (N and E)** - where the value of public sector land (or other assets) is increased through improvements in infrastructure, the increase in value once realised could be used to fund (or reimburse) the cost of the works. In some cases, specific provisions may be required to set aside policies such as best consideration. The public sector may then directly develop or commission development to maximise its return, although the level of risk will be much greater.
- **Compulsory Purchase (N)** - public sector may enter into a compulsory purchase order to bring land into public ownership to ensure comprehensive redevelopment and thus increase land values for all parties, which would then be available for value capture.
- **Ransom strips (N)** - payment could be sought from adjacent land owners/developers to access the new infrastructure.
- **Utilities companies (N)** - the public sector may seek to agree a joint approach with utilities companies in order to forward fund strategic utilities infrastructure and then secure re-imbursement through future revenue income. For example, this might include the creation of a Multi-Utilities Service Company (MUSCO).
- **Operational performance agreement (E)** - in certain circumstances, existing businesses could contribute directly to improvements. This could be linked to the performance of the business, such as an increase in visitors or output. An operational performance agreement could, for example, be applied in the form of a car parking levy or precept on parking charges in agreement with private operators that attract significant number of users. Another possible mechanism could be a change levied on users (for example, of an airport) which would fund relevant infrastructure improvements. This has previously been applied elsewhere, such as Cornwall Airport Newquay, but has proved unpopular.
EXISTING PLANNING RELATED MECHANISMS

• Planning/highway agreements (N) – through the negotiation of appropriate planning and transport obligations, such as Section 106/Section 278 agreements, developers can make direct contributions to the cost of infrastructure (or this can be used to reimburse costs already incurred by the public sector).
• Community Infrastructure Levy - CIL (N) – revenue raised through CIL could be used to pay for (or reimburse) the cost of infrastructure. However, the status and provisions of CIL policies vary significantly between local authorities.

VOLUNTARY BUSINESS CONTRIBUTIONS

• Business Improvement Districts including thematic BIDs (E and N) – these are created through a ballot process of existing businesses and could seek to deliver improved local infrastructure.

EXISTING FISCAL/GOVERNMENT MECHANISMS

• Business Rates (E and N) – additional locally retained business rates could be used (in part or full) to fund the infrastructure. This would often be based on a TIF type model with the capital sum being borrowed and repayment made through the business rates. This could be based on the current arrangements whereby a proportion of the business rates income is retained locally by the local authority. However reforms are planned and it is proposed that local authorities may retain 100% locally subject to some redistribution. Alternatively, this could be achieved through the designation of an area as an Enterprise Zone (see below).
• New Homes Bonus (N) – part or all of any New Homes Bonus generated could be used to meet the cost of infrastructure. Again, a TIF type approach could be designed.
• Council Tax (E and N) – Council Tax payments reflect the costs of new services. However, it may be appropriate in certain circumstances to hypothecate a percentage contribution from properties of, say, higher bands contribute to the cost of infrastructure. However, this is unlikely to be an acceptable approach except in very specific circumstances.
• Workplace Parking Levy (E and N) – it may also be appropriate within a zone to consider implementing a workplace parking levy to generate funding for investment in sustainable transport. This would be a levy on employers who provide workplace parking

EXISTING FISCAL/GOVERNMENT MECHANISM REQUIRING SPECIFIC DESIGNATION OR APPROVAL

• Toll or user charges (E and N) – another potential option would be to introduce a toll or user charge for the infrastructure that would not normally be subject to user charges (such as a road or bridge), which would be used to fund the costs.
• Business Rates Precept – zone or wider area (E) – a precept could be added to the existing business rates to help fund the costs of finance borrowing. As part of the West Midlands Combined Authority Devolution Agreement, the Government has provided the Mayor of the West Midlands with the power to raise supplementary business rates to fund infrastructure.
• Enterprise Zone – these are designated areas across England that provide tax allowances and government support. In addition, all business rates growth generated in an Enterprise Zone is kept locally for 25 years to reinvest in local economic growth. For example, again as part of the West Midlands Combined Authority Devolution Agreement, the Government approved the business case for a significant extension to the Enterprise Zone at Curzon Street in order that the funding raised through these mechanisms can support the delivery of the HS2 Growth Strategy.

The above existing mechanisms have been tested against four criteria, namely:
1. who pays and benefits;
2. equity considerations, in particular, how closely the charge borne by potential contributors is likely to relate to the scale of the benefits which they receive – i.e., the extent to which the mechanism involves accords with the ‘benefit principle of taxation’;
3. economic efficiency aspects, in particular, how far the different mechanisms would be likely to adversely affect the scale or pace of development or create artificial incentives to potential developers to shape developments in ways designed to minimise their liabilities to contribute; and
4. the issues which are likely to influence the potential of the mechanisms to help finance infrastructure.

The results of this assessment are summarised in Table 3.
The following points emerge from the assessment:

- none of the mechanisms directly capture value uplift where land or property is sold following the beneficial impact of infrastructure;
- with the exception of Enterprise Zones, which require specific designation and approval by Central Government, they also do not stimulate demand or incentivise direct private sector investment;
- all of the identified potential mechanisms focus on capturing value from only a limited proportion of the major beneficiaries of the investments which has implications for the scale of the funding which each could potentially raise and for the extent to which they are likely to be seen as equitable. In particular, there are limited tools available to secure value capture from existing developments/activities;
- most of the mechanisms have some potential adverse effects though on an initial assessment these seem likely to be relatively limited;
- most have some other downsides or issues of practicality which will need to be explored and navigated around; and
- for these reasons, the best way forward is likely to involve a mix of mechanisms and consideration of new or amended approaches. An appropriate set of tools would then be identified for any given package of investments.

In order to address the gaps and issues identified in the existing potential approaches, a range of new or amended mechanisms have been considered (see Appendix 2). A number of possible options have not been taken forward for further consideration because they do not relate to the type of localised benefits under consideration or raise wider policy issues. These include Land Value Tax, Corporation Tax (except in relation to chargeable gains) and Employee Taxes (Income Tax and National Insurance). Other mechanisms, such as a development rights auction model, work where there is very high demand and have not been included at this stage.

The potential new or amended existing fiscal mechanisms that could be considered depending on the specific circumstances of the proposed infrastructure investment package include:

- Stamp Duty Land Tax (SDLT) retention (N and E) – SDLT could be retained locally to fund infrastructure subject to Government consent. This would directly capture some of the uplift where land and premises are transacted.
- Capital Gains Tax (CGT) and chargeable gains retention (N and E) – the land and property component of CGT could potentially be ‘retained’ within an area. There could also be retention of chargeable gains on assets within an area which forms part of a Corporation Tax computation and assessment. However, this would present significant administrative issues and it would be difficult to associated specific gains and payments to particular sites and premises within an area. Consequently, this is unlikely to be an appropriate mechanism without significant changes.
- Air Passenger Duty (E) – this excise duty, which is charged on the carriage of air passengers, could be hypothecated and retained to fund infrastructure that benefits local airports. This would enable an existing duty to be used to support expansion in an existing activity.
- Capital allowances/support (E and N) – there is potential to consider adapting existing or creating new Capital Allowance or tax relief based schemes to support infrastructure investment by the private sector. These could be based on the previous Business Premises Renovation Allowance (BPRA) and/or the current Land Remediation Relief (LRR)/Deregulated Land Tax Credit. BPRA was a 100% tax allowance for certain qualifying business premises in a disadvantaged area. LRR is a corporation tax relief, which can provide up to 150% relief. For example, an Infrastructure Investment Allowance or Relief scheme could be developed. This could stimulate demand and incentivise direct investment in infrastructure by the private sector.
- Tourism/hotel and other sales taxes (E and N) – where the infrastructure was expected to benefit the visitor and leisure economy, in particular, it may be appropriate to consider creating a tourism or hotel tax. It may also, in certain cases, be appropriate to seek to apply other relevant sales taxes.
- Gambling Duties (E and N) – agreement might be sought to hypothecate an element of the Gambling Duties raised within a designated area.

### Table 3: Review of Existing Mechanism

<table>
<thead>
<tr>
<th>Community Infrastructure Levy</th>
<th>Developer pays to LA at commencement</th>
<th>Equity</th>
<th>Economic efficiency</th>
<th>Issues (acceptability, timing, costs, levels of return)</th>
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</thead>
<tbody>
<tr>
<td>Who pays/benefits</td>
<td>up to 100%</td>
<td>benefits</td>
<td>neutrality to avoid distortion and boundary effects</td>
<td>some disincentives to development may be captured but benefits of planning gain/innovation not captured/received</td>
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<table>
<thead>
<tr>
<th>Business Improvement Districts</th>
<th>Payment by occupier in designated area to BID</th>
<th>Equity</th>
<th>Economic efficiency</th>
<th>Issues (acceptability, timing, costs, levels of return)</th>
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<tbody>
<tr>
<td>Who pays/benefits</td>
<td>paid by occupier</td>
<td>benefits</td>
<td>neutrality to avoid distortion and boundary effects</td>
<td>some disincentives to development may be captured but benefits of planning gain/innovation not captured/received</td>
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<table>
<thead>
<tr>
<th>Existing fiscal mechanism requiring specific designation/area</th>
<th>Who pays/benefits</th>
<th>Equity</th>
<th>Economic efficiency</th>
<th>Issues (acceptability, timing, costs, levels of return)</th>
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</thead>
<tbody>
<tr>
<td>Enterprise Zone</td>
<td>paid by occupier</td>
<td>benefits</td>
<td>neutrality to avoid distortion and boundary effects</td>
<td>some disincentives to development may be captured but benefits of planning gain/innovation not captured/received</td>
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<table>
<thead>
<tr>
<th>Potential New or Amended Fiscal Mechanisms</th>
<th>Who pays/benefits</th>
<th>Equity</th>
<th>Economic efficiency</th>
<th>Issues (acceptability, timing, costs, levels of return)</th>
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<tr>
<td>Stamp Duty Land Tax (SDLT) retention (N and E)</td>
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<tr>
<td>Capital Gains Tax (CGT) and chargeable gains retention (N and E)</td>
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<td>Air Passenger Duty (E)</td>
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<td>Capital allowances/support (E and N)</td>
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<td>Tourism/hotel and other sales taxes (E and N)</td>
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<td>Gambling Duties (E and N)</td>
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A review of the potential new or amended tools has been undertaken and is summarised in Table 4. Again, the potential mechanisms are subject to a range of limitations and issues. The appropriateness of each will need to be assessed in relation to specific infrastructure packages. Many of the above new or amended ‘tools’ will only be appropriate in specific circumstances and can only be brought forward when these conditions arise. However, there is believed to be merit in exploring further the opportunity to create an Infrastructure Investment Allowance or Relief.

**POTENTIAL INFRASTRUCTURE INVESTMENT ALLOWANCE OR RELIEF**

The Infrastructure Investment Allowance or Relief could use Capital Allowances or Corporation Tax Relief, in the same way as Business Premises Renovation Allowance (BPRA) or Land Remediation Relief (LRR) respectively, in order to incentivise private sector investment in infrastructure. This could then, for example, be ‘matched’ with a public sector infrastructure bond, linked to some of the mechanisms identified above. This may be attractive depending on any constraints that might be associated with public borrowing and the coupon rate that would be associated with any bond.

<table>
<thead>
<tr>
<th>Who pays/benefits</th>
<th>Equity</th>
<th>Economic efficiency</th>
<th>Issues (acceptability, timing, levels of return)</th>
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<tr>
<td>Stamp Duty Land Tax</td>
<td>Purchaser pays Central Government – potential to hypothecate</td>
<td>Would provide a more comprehensive approach to capturing value uplift – but only when transactions take place</td>
<td>No disincentives to development if derives from existing SDLT payments and arrangements</td>
</tr>
<tr>
<td>Capital Gains Tax/ Chargeable gains</td>
<td>Tax payer pays Central Government – potential to hypothecate</td>
<td>Would provide a more comprehensive approach to capturing value uplift – but only when transactions take place</td>
<td>No disincentives to development if derives from existing CGT/chargeable gains payments and arrangements</td>
</tr>
<tr>
<td>Air Passenger Duty</td>
<td>Passengers pay airlines who pay Central Government – potential to hypothecate</td>
<td>Focus on a possibly significant but inevitably partial set of beneficiaries</td>
<td>Possible distortions in relation to other airports</td>
</tr>
<tr>
<td>Capital Allowances/Tax Relief</td>
<td>Central Government provides fiscal incentives for private sector to invest</td>
<td>Focus on certain beneficiary groups</td>
<td>Potential displacement effects. May well result in boundary effects</td>
</tr>
<tr>
<td>Tourism/hotel and other sales taxes</td>
<td>Paid by tourist to public sector (LA)</td>
<td>Focus on an inevitably partial set of beneficiaries</td>
<td>May have distortions depending on scale of tax</td>
</tr>
<tr>
<td>Gambling Duties</td>
<td>Gaming Business pays Central Government – potential to hypothecate</td>
<td>Focus on an inevitably partial set of beneficiaries</td>
<td>No disincentives to activity if derives from existing levy payments and arrangements</td>
</tr>
</tbody>
</table>

| TABLE 4: REVIEW OF POTENTIAL NEW MECHANISM |

**COST OF COLLECTION AND NET RECEIPTS**

In assessing the potential value that can be captured it is essential to assess the public sector cost of collection and focus on the net receipts.

In terms of commercial arrangements these will vary depending on the nature of the proposed agreement. However, legal and other fees would typically be in the tens to hundreds of thousands for a major development.

The planning mechanisms vary in terms of their collection costs with the CIL which is based on an agreed formula having a lower cost than the Section 106/Section 278 agreements. The latter may involve specialist advice which again can cost many thousands of pounds.

The existing fiscal mechanisms are generally collected locally and thus the additional costs would relate to the ‘ring fencing’ of these along with treasury management and defrayment costs. In each case a specific system would need to be established.

Those fiscal measures that seek to retain local (or hypothecate) tax receipts that are collected centrally would involve additional costs associated with HMRC/HMT and the interface with local partners. Typically, in the UK administrative costs are about 1% of the total tax income.

It is recommended that the Combined Authority or a designated local Authority should be responsible for managing the Value Capture mechanism for each specific investment or package.

**VALUE CAPTURE FRAMEWORK**

Figure 5 sets out the Value Capture Framework and the main components of the tool kit. The tool kit is sub-divided between: new and existing development/activities, commercial, planning and or fiscal/government tools, and existing or new/amended mechanisms.

The proposed approach to value capture will be bespoke to particular projects and packages. However, it is proposed that the following approach is adopted to selecting the most appropriate tools:

1. Identify the anticipated beneficiaries, scale and type of impact, and primary area of impact;
2. Identify whether the main beneficiaries are new or existing activities and whether the uses are housing or employment/specific users;
3. Using the Value Capture Framework and spreadsheet tool (which is available separately) assess the potential for value capture associated with each beneficiary, working from the existing mechanism (top of the chart) down. Often only a few mechanisms will be relevant and appropriate.

Once an initial analysis is completed, it will be important to assess whether implementing the value capture package or mechanism is likely to be:

- Achievable – considering whether the package can be delivered, based on key risk, constraints and dependencies;
- Acceptable – an assessment of the extent to which the package or mechanism is likely to be acceptable to key stakeholders;
- Value for money – the degree to which the value captured is likely to exceed the costs of implementing the mechanism.

It is envisaged that the tool kit will be used to help inform the development of projects or programmes. Furthermore, that it will be a component of the WMCA Business Case development, appraisal and approval process and will be integrated with other tools such as the Dynamic Economic Impact Model (DEIM).

**APPLYING THE FRAMEWORK – A REAL WORLD EXAMPLE**

The tool kit has been tested by applying it to the proposed investment package at the UKC Hub. In total, it is estimated that up to £2.0 billion (2017 prices) in value could potentially be captured over the period to 2045 the case of the UKC Hub through the application of a combination of 12 mechanisms. In reality, only a more limited number of tools would be used and the actual amount captured would be lower.

If only the existing (non-specifically designated) mechanism are used, it is estimated that up to £1.0 billion (2017 prices) in value could potentially be captured to 2045.
This report has identified the case for value capture, highlighting that:

- major infrastructure improvements have the potential to generate a wide range of benefits. However, the scale and nature of these benefits will vary substantially and some businesses and individuals will probably actually lose. In the long-run, market mechanisms mean that the benefits involved are likely to be capitalised, to a large extent, in property values;
- such improvements may have significant potential effects in unlocking developments, the intensification of activities or change of use, which might otherwise not happen. In any event, the value thus created represents an obvious potential target for value capture initiatives;
- the benefit principle of taxation supports an approach of seeking to secure finance for improvements based upon the enhancement effects on development and property values. There may be opportunities to hypothecate tax and also to consider other approaches such as user charges;
- while there is no agreed or consistent approach to capturing value, there are a number of UK and international examples of where value capture techniques have been successfully applied, such as Crossrail;
- there are a variety of potential value capture mechanisms or tools which can be grouped into the following categories:
  - development-based mechanism;
  - planning/transport-related mechanism;
  - voluntary business contributions;
  - user charges; and
  - taxation and leveraged borrowing.

- there is no single favoured mechanism and a packaged approach, bespoke to the specific circumstances of any investment is likely to be required based on an agreed suite of approaches (or toolkit);
- the WMCA SEP HS2 Growth Strategy and Investment Prospectus outline a significant programme of investment and development, much of which is underpinned by new or improved infrastructure. If the WMCA is to deliver its ambitious vision then it will need to ensure that its relatively limited direct resources are, wherever possible, recycled and lever significant amounts of private investment. Consequently, value capture will need to be a core part of its approach.

A framework has been developed for selecting the appropriate tools. The toolkit is sub-divided between:

- new and existing development/activities, commercial, planning, voluntary business contribution and fiscal tools; and existing or new/amended mechanisms.
- In total 21 potential tools are identified; and the toolkit has been tested using the proposed investment package at the UKC Hub. Through the application of a combination of 12 mechanisms it is estimated that up to £2.0 billion (2017 prices) in value could potentially be captured over the period to 2045. In reality, only a more limited number of tools would be used. The value captured using only existing (non-specifically designated) mechanism is estimated that up to £0.97 billion (2017 prices) to 2045.
APPENDICES

A.

APPENDIX 1 – THE CASE FOR A VALUE CAPTURE MODEL: STAGE 1 REPORT
APPENDIX 2 - LONG LIST OF MECHANISM REVIEW
1.0 INTRODUCTION

1.1 OVERVIEW

AMION Consulting, in association with Cushman and Wakefield and DWF, have been appointed by the Urban Growth Company (UGC) on behalf of the West Midland Combined Authority (WMCA) to establish a Value Capture Framework and Mechanism.

The UGC has been established to create the conditions for growth around a set of national assets in Solihull – referred to as UK Central (UKC). At the core of this area is the UKC Hub (see Figure 1.1), which comprises Birmingham Airport, the National Exhibition Centre (NEC), Jaguar Land Rover (JLR), Birmingham Business Park and the proposed new HS2 station. The assignment will include the development of a detailed funding model for the UKC Hub, which will serve to test the Value Capture Framework.

The creation of new infrastructure, such as that proposed within the UKC Hub and elsewhere across the West Midlands, has the potential to generate substantial benefits to businesses and individuals. It often results in improvements in the value in the immediate environments of stations and can generate significant agglomeration effects.

The nature and scale of these benefits (and to whom they accrue) will vary depending upon the local circumstances. In many cases, public sector investment will result in a ‘free rider problem’, arising from the fact that a business or individual may be able to obtain the benefits of a good (in this case new infrastructure) without contributing to the cost or by contributing only marginally through general taxation. A range of approaches have been developed to attempt to redistribute costs and benefits, including appropriate compensatory mechanism which require beneficiaries to make certain contributions towards the cost of infrastructure. However, these approaches are at best inconsistent and in most cases, are not comprehensive or co-ordinated. Often they have focused on land value. However, it will be important to adopt a broader definition in this exercise to ensure that the full potential mechanism to capture location-based value are explored.

The purpose of this assignment is to develop a comprehensive framework and mechanism for value capture in the West Midlands to, in particular, support the delivery of the Midlands HS2 Growth Strategy and other major infrastructure proposals. This will provide an important revenue stream back to the CA.

This Stage 1 report sets out the case for capturing value. Subsequent reports will review in detail the potential mechanism and identify a Framework and ‘tool kit’ for value capture.

1.2 STRUCTURE OF THE REPORT

The report continues in four sections, as follows:

- Section 2 – analyses the nature of the costs and benefits associated with infrastructure and, in particular, transport infrastructure;
- Section 3 – briefly reviews the current approaches and thinking in relation to value capture;
- Section 4 – discusses the opportunities for value capture associated with the WMCA investment programme and specifically the UKC Hub; and
- Section 5 – sets out the conclusions of the initial review stage of the work and the case for capturing value.

Figure 1.1: UKC Hub
NATURE OF THE BENEFITS AND COSTS OF INFRASTRUCTURE

2.1 INTRODUCTION

This Section reviews the potential costs and benefits of major transport investments to residents, businesses, developers and landowners and considers the associated issues this creates for possible initiatives to capture the value created for different parties. At this stage the focus is on the broad issues involved rather than on the more detailed questions of how much value might be captured and how this might practically be best accomplished. This will form the focus for the next stage of the assignment.

It is assumed initially that the major focus is on transport infrastructure investment though some of the same issues will arise in relation to other types of infrastructure scheme. For analytical purposes, it is useful to distinguish between two types of impact: impacts on residents and businesses already located within the area and impacts on potential new developments. This distinction will, of course, become somewhat fuzzy in some cases – for example, where infrastructure improvements affect the potential for changes of use or intensification of use of existing developed sites.

Although put on one side at this stage, there are clearly potential material issues to be considered of:

- How far the infrastructure involved will create absolute improvements in accessibility, either compared with the current baseline and/or compared with the likely situation in the absence of further major development – for example, within the M42 corridor, and;
- How far the main effects will just be to mitigate or avoid the deterioration in transport conditions which would be likely to arise because of major developments.

These aspects may, of course, influence the way residents and businesses respond to proposed public capture instruments and perhaps to the proposed growth strategy as a whole.

It needs to be borne in mind that there is an important distinction to be made between who secures the immediate benefits from an improvement or on whom its costs – including the costs of any instrument(s) to finance the improvement – fall, and, the ultimate incidence of the costs and benefits involved? For example, the costs of a charge may be borne by a business in the form of reduced profitability, passed forward to customers in the form of higher prices or passed back to the suppliers of the firm’s premises, its materials and/or its workforce – or potentially some combination of these, depending on the context of the markets within which it operates. The sections below highlight where such transfers of the burden of a tax charge designed to capture the value of transport investments in the area seem particularly likely to occur though a comprehensive analysis would be beyond the scope of the study.

2.2 IMPACTS ON EXISTING RESIDENTS AND BUSINESSES

2.2.1 RESIDENTS

Existing residents may:

a) benefit from the improved accessibility to employment and social opportunities which the new infrastructure provides. The extent of this benefit will depend on the demographic composition of the residents involved and the nature and extent of the accessibility benefits involved in terms of potential journey time and reliability improvements. For example:

- the direct benefits of local public transport improvements will typically be mainly focussed around the access points to the schemes involved (stations and stopping points) and – partly for this reason – are likely to be greater within urban/intensively developed residential areas. The presumption is that the access which schemes provide to major employment centres (central Birmingham, Solihull and the Airport/NEC) is likely to be the most important element in these benefits; and
- the benefits of road schemes and inter-urban rail improvements are likely to be more spatially diffused. In the case of the M42 corridor the potential benefits of road schemes to existing residents are likely to arise mainly from effects in reducing or limiting the increase in congestion. HS2 will mainly benefit those travelling to London and, after Phase 2, the North, with these benefits clearly accruing to people over a wide catchment area.

b) Residents may experience adverse local environmental costs from the schemes involved, either directly or because of effects in generating traffic or rerouting effects. In some cases, of course, there may be environmental benefits to residents from mode shifts to public transport and/or traffic rerouting effects.

It needs to be noted that the extent of the benefits to individual residents will likely be very variable, even within specific localities, because of differences in personal circumstances – with many potentially benefitting and experiencing no benefit even where their immediate neighbours are substantial beneficiaries. Over time, neighbourhoods which benefit from accessibility improvements are likely to see house prices bid up by people moving into the area who value this attribute. This will create a potential capital gain to existing residents but one they can only realise by incurring the substantial personal and financial costs of moving. Of course, where property is rented rather than owned the enhanced attractiveness of the area to people from elsewhere will tend to bid up rental levels to the benefit of property owners but the possible net detriment of tenants. Such possibilities clearly raise equity issues for any attempt at value capture as discussed further below.

2.2.2 BUSINESSES

Transport infrastructure improvements may benefit established businesses through various mechanisms, the significance of which will vary in particular with the nature of the businesses involved and – associated with this – their transport intensity (i.e., the proportion which different transport costs represent in the total costs of the business). A full analysis is difficult because of the limitations of the currently published data but it is clear that transport accounts for a relatively low proportion of the costs of most businesses, implying that the overall direct cost impacts of specific transport infrastructure improvements on the vast majority of local businesses will almost certainly be relatively limited.

Although this may miss some aspects of the way transport impacts on businesses, an analysis of the national input-output tables indicates that purchases of road transport account for significantly more than 5% of total purchases from other sectors in only a few manufacturing and service sectors (for example, Other Mining and Quarrying, which from this latter effect depends partly on the question of how far it is the employee and how far the business which ultimately pays the costs of commuting – one to which it is likely to be difficult to provide a clear answer and which will likely vary widely dependent on conditions within the labour market(s) within which businesses operate.

The presumption is that such costs – and thus the potential savings from infrastructure improvements which lower them – may be most significant to office based and other businesses which depend on attracting workers from a wide area. In the case of public transport schemes in particular such savings are most likely to arise within urban centres and substantial, peripheral employment centres such as the Airport and the NEC.

b) In-work travel costs – businesses will clearly benefit from potential reductions in the time and monetary costs of business travel, although such benefits will be limited to the extent that the costs involved are effectively passed on to customers. The presumption is that such costs – and thus the potential associated savings from infrastructure improvements - will be most important in relation to:

- Sales and servicing and other operations which depend upon access to customers by car, and
- Business and professional businesses which require access – mostly by rail – to London, Birmingham and other major urban centres.

c) Movement of goods – businesses will potentially benefit from road improvements which reduce the costs to themselves of delivering goods and/or reduce the costs to their suppliers of deliveries and/or improve the predictability of delivery times. At a general level, such effects will be most important to distribution focused activities and to manufacturing businesses to which distribution costs are relatively significant and/or which operate in sectors involving just-in-time delivery arrangements. Their significance to the costs of businesses within the area of impact of the infrastructure will again depend partly on the question of whether/how far differences in delivery costs between locations are effectively met by suppliers or passed on to customers?

d) Access to customers and visitors – transport improvements potentially increase the size of the customer and visitor populations which can access businesses located within the corridor within a particular time – and therefore cost – bands. This is particularly important to retail businesses and visitor attractions and, in the context of the UKC Hub, to the competitiveness of the Airport and the NEC.
2.3 IMPACTS ON NEW DEVELOPMENTS

Transport improvements will often be crucial in:

- Making development – or particular types of development - physically feasible where this would not otherwise be the case, typically through providing, or improving, access to the (potential) development site concerned; and
- Overcoming actual or potential objections to development – or particular types of development/ redevelopment – on highways or planning grounds by either Highways England or the local authority itself.

In either case, where no development would otherwise be possible, the improvements will effectively increase the value of the site by an amount reflecting the ‘residual value’ of the development which is rendered possible / permissible – i.e. the difference between the market value of the property which can be constructed and its associated development costs (including the value of the site). Where some form of profitable development would be possible/permissible in the absence of the improvements, the enhancement effect will effectively be the difference between the residual values of the most profitable developments which would be permissible with and without the improvements.

Even where development could proceed in much the same way in the absence of the improvements, because of an existing planning permission or the lack of reasonable grounds for refusal on the basis of highways considerations, there may, of course, still be a significant potential enhancement to the value of the development and thus to that of the site concerned. The improvements will result in the types of benefit to end users/potential occupiers described in Section 2.2 and these will likely feed through to sale prices for housing, industrial and commercial development plots and to rentals.

Reflecting the potential mechanisms through which value could be created in new developments as outlined above, the potential benefits from the transport improvements will largely depend upon:

- the extent to which the accessibility improvements would likely benefit the profitability of the development which could take place under either new or existing planning permissions, taking account of possible effects on the type and/or intensity of use involved.

The restrictions on levels of development within the UK planning system and other factors combine to generate huge differences in the value of otherwise similar sites on the basis of the type of use which is permitted. For example, in the case of the UK Hub according to DCLG 2015 data, agricultural land in the West Midlands typically commands a value of around £24,000 per ha. In contrast, industrial land typically costs around £500,000 per hectare and housing developments sites in Solihull can reach values of £3m plus per ha. The potential for ‘planning gain’ which this creates, together with the scope for value enhancement through market mechanisms from accessibility improvements, clearly offer substantial potential possibilities for value capture in UKC because of its combination of areas of potentially developable land, strong development interest and relatively high property values, along with the further stimulus effects of major infrastructure projects, such as HS2.

It needs to be noted that a major complication arises from the likelihood that land values in the area – particularly for sites in the lowest value, i.e. agricultural, use - will already to some extent reflect the ‘hope value’ of a future planning permission rather than an alternative, higher value use rather than just current use value. In effect, sites may already be being purchased at prices which reflect a combination of the potential planning gain from a change of use and the expectations of the property market about the probability that this gain will arise and when this is likely to occur. Clearly knowledge of the UKC Hub growth strategy by market participants will be a factor influencing this expectation.

2.4 IMPLICATIONS FOR THE FUNDING OF INFRASTRUCTURE IMPROVEMENTS

There is a clear asymmetry in the current funding arrangements for public and road transport:

(i) Public policy has traditionally been to fund public transport infrastructure schemes as far as possible from the expected revenue stream from user charges, with finance though taxation meeting only the residual funding ‘gap’, typically with a justification based around the external benefits of schemes, such as congestion relief. However, it appears that the viability of most rail and light rail schemes depends on substantial capital subsidies. It also appears that in practice the capacity to fund the capital costs of schemes out of revenue has often fallen well short of expectations (e.g. the Channel Tunnel Rail Link/HS1).

(ii) Road schemes are typically funded out of general taxation with no direct contribution from user charges, although taxation of road transport apparently substantially exceeds public expenditure on the road network. Funding through direct user charges has traditionally been limited in the UK and other densely populated countries, probably because of issues around the costs and practicability of collection of tolls and concerns about the likely economic inefficiencies of a situation in which user charges are levied on just some routes (the concern here is that traffic will shift to non-tolled routes, imposing congestion costs on other users of these routes in the process). In the UK funding through user charges has typically been limited to examples such as major bridges and tunnels where these issues are less severe (the M6 Toll being the obvious exception to this picture).

This asymmetry has been the source of a range of debates around such issues as whether the associated differences in appraisal practice creates a bias in favour of road schemes, whether road traffic actually pays its full economic, environmental and social costs, and, whether the tolls on tunnels and bridges are to a substantial extent a form of taxation rather than an economic charge? Such debates form an aspect of the context to the current study but any detailed consideration of the issues involved is outside its scope.

The analysis in Section 2.3 above suggests that a substantial part of the benefits of transport improvements will come to be capitalised in some way in property values, particularly in the long-run and that these are the most appropriate focus for attempts at value capture to help fund at least those costs of new transport infrastructure which cannot be financed by user charges. This expectation is reflected in the domination of property focused instruments in the value capture mechanisms which have been/are being used internationally (see Section 3 below).

Three aspects need to be considered:

(i) How far it is equitable to seek to fund infrastructure improvements through property focused fiscal instruments? Economists have traditionally identified two alternative criteria which could be used to shape taxation policy:
The benefit principle – which effectively argues that taxes on individuals and businesses should reflect the benefits they derive from the services which the taxes are used to finance. Whilst there are arguably plenty of applications which to some extent reflect this principle in general terms within the UK (e.g. National Insurance), it conflicts with the general Treasury resistance to the use of hypothecated taxes. Application of the principle also faces the general problem – which will undoubtedly arise in this case – that, where it is known to be being applied, those affected have a strong incentive to minimise the assessment of the benefit they receive, hoping to ‘free ride’ on the contributions of other beneficiaries or general taxation. However, there is considered to be significant merit in exploring further the potential to hypothecate tax by retaining some or all of it locally to fund infrastructure works. One example of this, which is clearly relevant in this case, is the local retention of all the additional business rates generated within a designated Enterprise Zone.

In the case of potential development which could not take place in the absence of the infrastructure concerned, it could be argued that the total potential profitability of the development (i.e. its residual value taking account of the best alternative use value of the land concerned, as noted above) represents a benefit from the infrastructure which unlocks the scheme which could potentially be ‘taxed away’ on this criterion.

Major issues for consideration arise in relation to the treatment of the additional business rates in land prices. Ignoring the fact that local land prices will likely already involve a significant element of such value would potentially limit the scope to capture value; however, assessing planning gain based just upon existing use values would arguably involve taxation of non-existent gains. Those owners where transactions have already taken place at prices which reflect significant elements of hope value.

Establishing the benefits of the infrastructure to other developments or existing developments – and thus the potential for value capture – may be problematic in practice, particularly given the incentive to ‘free ride’ noted above, and may be dependent upon either expert assessment (ex-ante) or a carefully designed evaluation study (ex-post). In the case of existing employment uses, there is also a complication of how, if at all, the contributions required should, or practically could, be varied to reflect the likely differences in the extent to which individual occupiers are likely to benefit from the schemes concerned.

It also needs to be noted that in the case of major road infrastructures the presumption is that a substantial part – and very likely the majority of – the benefits involved will accrue to people and businesses based outside the area, and may not be capturable through some, or perhaps not any, of the potentially available instruments. (It is suggested that it would be worthwhile to review the business cases for major transport proposals in the relevant area to assess how far this is the case.) This may limit the extent to which it is practicable to finance the infrastructure through taxes based upon the principle and raises issues of fairness if those securing much, or most, of the benefits are not required to contribute – although, equally, it raises issues of fairness if the local beneficiaries of just public transport improvements were required to contribute to the capital costs.

Capturing potential benefits from existing developments also encounters the problem that levying charges on existing occupiers would potentially involve a requirement to contribute on people or firms who derive little or no benefit; levying charges on the landowner would potentially involve an obligation to contribute based upon a benefit which they could/will only be actually able to realise later. Finally, a potential variant approach based upon equity principles would be to levy a charge on major developments based upon the proportion of the future traffic growth on specific pieces of infrastructure for which they are expected to account. Again, this would clearly lead to substantial sources of debate with those who could be required to contribute about the significance of their potential future traffic generation effects.

(a) The ‘ability to pay’ principle. There is a presumption that many – though not necessarily all - new developments within the area of benefit will have some potential capacity to contribute to transport infrastructure costs. However, issues arise of:

- whether/how to vary the contributions required in light of likely differences in this capacity – either based on assumptions about the capacity of different types or scales of development to contribute or on a scheme by scheme basis; and
- in the case of existing developments, how to deal with the risk that a requirement for significant contributions could create financial difficulties for many occupiers.

(ii) The likely economic efficiency of such instruments. The expectation that a substantial part of the cost of any property based tax to finance infrastructure improvements will ultimately be borne by beneficiaries in the long-run in the form of reduced rentals rather than by the occupiers is one of the potentially attractive features of land taxes. Such taxes were also historically favoured on the assumption that ownership of land was a measure of wealth and because of the expectation that they could not be passed on to consumers and infrastructure thus taxes based upon the principle and raises issues of fairness if those securing much, or most, of the benefits are not required to contribute – although, equally, it raises issues of fairness if the local beneficiaries of just public transport improvements were required to contribute to the capital costs.

(b) The ‘ability to pay’ principle. There is a presumption that many – though not necessarily all - new developments within the area of benefit will have some potential capacity to contribute to transport infrastructure costs. However, issues arise of:

- whether/how to vary the contributions required in light of likely differences in this capacity – either based on assumptions about the capacity of different types or scales of development to contribute or on a scheme by scheme basis; and
- in the case of existing developments, how to deal with the risk that a requirement for significant contributions could create financial difficulties for many occupiers. Establishing the benefits of the extent of the benefits to existing residents and businesses – including the Airport and the NEL - and putting in place instruments which capture this value seems likely to be more challenging; and

- a substantial proportion of the benefits of improvements to the strategic highway network and of HS2 will accrue to people residing outside the area and devising instruments to capture these would be still more challenging.

2.5 CONCLUSIONS

Our principal conclusions in relation to the costs and benefits of infrastructure are as follows:

- major infrastructure improvements have the potential to generate a wide range of benefits to a wide range of residents, local businesses and others, although the scale of these benefits will vary substantially and some will probably actually lose. In the long-run market mechanisms mean that the benefits involved are likely to come to be capitalised to a large extent in property values;
- such improvements may have significant potential effects in unlocking developments which might otherwise be unacceptable on highway grounds and in enhancing the viability and value of other developments, in some cases through changes in their form or through increasing their intensity. In any event, the value thus created represents an obvious potential target for value capture initiatives, and
- the benefit principle of taxation supports an approach of seeking to secure finance for improvements based upon the enhancement effects on development and property values, although establishing the extent of the enhancements raises some difficult issues. There are risks that developments could be choked off unless the approach to value capture is very carefully designed and there are issues around how/whether the approach could operate successfully and fairly in relation to existing developments and around the issue of ‘hope value’.

- establishing the extent of the benefits to existing residents and businesses – including the Airport and the NEL - and putting in place instruments which capture this value seems likely to be more challenging; and

- a substantial proportion of the benefits of improvements to the strategic highway network and of HS2 will accrue to people residing outside the area and devising instruments to capture these would be still more challenging.

Our principal conclusions in relation to the costs and benefits of infrastructure are as follows:

- major infrastructure improvements have the potential to generate a wide range of benefits to a wide range of residents, local businesses and others, although the scale of these benefits will vary substantially and some will probably actually lose. In the long-run market mechanisms mean that the benefits involved are likely to come to be capitalised to a large extent in property values;
- such improvements may have significant potential effects in unlocking developments which might otherwise be unacceptable on highway grounds and in enhancing the viability and value of other developments, in some cases through changes in their form or through increasing their intensity. In any event, the value thus created represents an obvious potential target for value capture initiatives, and
- the benefit principle of taxation supports an approach of seeking to secure finance for improvements based upon the enhancement effects on development and property values, although establishing the extent of the enhancements raises some difficult issues. There are risks that developments could be choked off unless the approach to value capture is very carefully designed and there are issues around how/whether the approach could operate successfully and fairly in relation to existing developments and around the issue of ‘hope value’.

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3.1 INTRODUCTION

Value capture is the concept that government may be able to capture part of the economic value generated by investment in transport system, either to help finance the system itself or to lever investment in providing for other socially beneficial assets.

The topic of using value capture financing mechanisms to support public investments has received significant academic and practitioner attention in the past decade and, in particular, in the past five years as the need for public sector infrastructure has increased and public sector resources have reduced.

3.2 RATIONAL FOR VALUE CAPTURE

Three sets of beneficiaries can be identified that gain from infrastructure investment – the public in general, direct users of the infrastructure, and property and business owners in the vicinity of the infrastructure. While the first and second groups contribute financially to infrastructure through general taxation and fares, the third group can experience sustained additional value from construction of new infrastructure over and above their benefits as citizens or travelers in the form of unearned income as a positive externality to which they have not contributed.

There is a consensus that this location-based added value which would otherwise provide a windfall to particular sectors of the economy should be captured instead, at least in part, for the public good.

The original meaning of the term value capture referred specifically to increases in land values. However, it can be applied more generally to any form of location-based value through taxation or charges.

While there is a rationale for capture of unearned income, key issues exist in terms of efficient and equitable value capture mechanisms. Issues include, among other things, identification of the groups from which value should be captured, assessment of the increase in value, the proportion of value increase that it is reasonable to capture, and ability to pay.

There is some measure of agreement that contributions should derive from businesses rather than households.

3.3 POTENTIAL VALUE CAPTURE MECHANISMS

In terms of potential mechanisms in the UK, an early study in the UK context by the Scottish Executive (2003) undertook an assessment of eight alternative funding methods but, tellingly, no definitive recommendation of which funding method, if any, to pursue was made because of various uncertainties. The methods considered were: business rates levy; local authority business growth incentives; business improvement districts; land value taxation; greenfield development tax; freehold charges; planning gain; and buy-in charges.

It is clear that a variety of approaches to value capture have and are continuing to be considered. On an international level, a study of value capture mechanisms in six major cities in 2014 (London, Paris, Washington DC, New York, Montreal, and San Francisco) identified 11 separate types of schemes, including land value tax, tax increment financing, joint development, sale or lease of land, sale or lease of development rights, lease of commercial space, rail company business diversification, income tax, development fees, property transaction taxes, and special assessment districts.

The summary of value capture mechanisms in case study areas is shown in Figure 3.2.

A round table discussion held in December 2014 supporting the Mayor’s London Infrastructure Plan 2050 considered that lessons might be drawn from approaches in eight international cities, including examples in Chicago, Toronto, Atlanta, Paris, Copenhagen, and Melbourne.

An illustration of a fiscal-based value capture funding model is shown in Figure 3.1. Here the incremental revenue is captured for a period to fund (or repay the cost of) the infrastructure which has enabled the local growth.
3.4 CATEGORIES OF VALUE CAPTURE MECHANISMS

Some clarity can be identified in terms of the categorisation of the forms of mechanism that have been identified, in terms of the types of mechanisms these can be considered to comprise:

DEVELOPMENT-BASED MECHANISMS

• Legal agreements – specific agreements may be reached with landowners/developers to retrospectively reimburse the cost of infrastructure. The nature and implication of existing agreements, such as those in place in the UKC Hub with Arden Cross will need careful consideration.

• Use of existing public sector assets – the WMCA authorities hold land and potentially other assets that could form part of development proposals and may be enhanced by infrastructure improvements. The most appropriate use of these assets should therefore be subject to specific consideration as part of planning and feasibility work. Specific though would need to be given to issues such as best consideration.

• Joint development/co-investment – the public sector may work with private sector partners through a variety of mechanisms to share in the uplift in land value. For example, one approach would be for some (or all) of the costs of the infrastructure to be recognised as an equity investment in a joint venture. Alternatively, the public sector could provide debt funding (senior, junior or corporate), cash-flow, guarantees or other repayable finance mechanism to forward fund infrastructure.

• Acquisition and development (including potentially direct development) – the public sector may acquire land and directly development or commission to secure the full benefit of the uplift in land value derived from the infrastructure improvements. The role of HS2 Limited in relation to the Interchange Triangle site will need to be considered in this regard.

• Operational mechanism – in certain circumstances, it may be appropriate to agree repayment based on the operational performance of an entity.

• Planning mechanisms - Community Infrastructure Levy (CIL), Section 106 (S.106) Planning Obligations and Section 278 (S.278) Highways agreements are all of particular relevance. There is currently a low level of consistency between the authorities in the WMCA on CIL, with 5 of the 7 constituent authorities having an adopted scheme - with varying conditions attached to convenience and comparison retailing (as well as one district in terms of other A2, A3, A4, and A5 uses as well as car showrooms in terms of commercial development) - and only 1 of 5 non-constituent authorities with an adopted scheme. By definition, S.106 and S.278 Agreements are associated with individual development. To such, these mechanisms are likely to be partial and piecemeal – but nevertheless will be an important part of an overall value capture package. There is also a significant timing issue. For example, in relation to the UKC Hub area, two significant planning applications are expected to be considered shortly.

• Voluntary business contributions – the most appropriate mechanism is likely to be Business Improvement Districts (BIDs). The Westside BID in central Birmingham is an example of such an initiative. Subject to agreement through a local ballot, this may potentially be part (although small) of an overall suite of approaches.

TAXATION AND LEVERAGED BORROWING

• Existing arrangements – In terms of existing taxation powers, the WMCA has the potential (as utilised in relation to Crossrail), to develop a Business Rates Supplement under the 2009 Act, subject to approval of Government. In addition, the authorities can consider a Tax Increment Financing (TIF) scheme under the Local Government Finance Act 2012, based on borrowing against retained rates under the Business Rate Retention Scheme (BRRS), or alternatively establishing a New Development Deal. These approaches would similarly require Government approval. They would require the definition of a specific area or zone, which raises issues about boundary effects. For some infrastructure, which has a much wider base of beneficiaries, it may be appropriate to consider a small general precept on a tax like Business Rates, rather than applying a specific localised regime. However, there are risks that future changes and challenges to the Business Rates System could result in lower than expected recovery.

• There may also be opportunities to secure repayment of some proportion of any net additional council tax or New Homes Bonus generated by an infrastructure investment. In relation to council tax, care will be needed to ensure that the receipts retained by the relevant local authority cover the cost of providing new services.

• New and Devolved mechanism – the WMCA Devolution Agreement (November 2015) was the first step towards a range of local delivery; local control of investment plans and funds, adult skills provision; a local employment service; mental health; troubled individuals and youth justice services; local public transport system and strategic road network planning; business support and inward investment system; and public sector land and property. Key recommendations of the London Finance Commission (2013) raise the potential for wider powers such as devolution of the full suite of property taxes which may potentially form part of longer-term resources. For example, this might include the local retention of Stamp Duty. It may also be appropriate to seek to retain other specific tax measures, such as Airport Passenger Duty.

• User charges – in respect of user charges, there are potentially a variety of charges that might be applied to users depending on the particular nature of the scheme. For example, car parking charges (or a premium on them) may provide an important and sustainable source of revenue.

• In addition, it is apparent that there is no single favoured mechanism, and that approaches need to be tailored to specific schemes – with the likelihood that more than one mechanism will be appropriate. The legal (including State aid and procurement) implications of the specific mechanism and projects will need to be carefully considered.

3.5 CONCLUSIONS

The initial review of current approaches to value capture has confirmed that:

• there is no agreed or consistent approach to capturing value;

• there are however a number of UK and international examples of where value capture techniques have been successfully applied;

• there are a variety of potential value capture mechanism, which can be grouped into the following categories: planning mechanism, taxation and leveraged borrowing, voluntary business contributions, user charges, development-based mechanism and operational mechanism; and

• there is no singled favoured mechanism and a packaged approach, bespoke to the specific circumstances of any investment is likely to be required based on an agreed suite of approaches (or tool kit).
4.0 OPPORTUNITIES FOR VALUE CAPTURE IN THE WMCA AND UKC

4.1 INTRODUCTION

The WMCA has formulated a Strategic Economic Plan (SEP) for the West Midlands which involves substantial investment in new infrastructure to unlock the economic potential of the area. It has identified a strategy for growth with challenging targets and a range of priority areas. One of these areas is the HS2 Growth Strategy and within this the Interchange Station site in Solihull, which forms part of the UKC Hub.

This section briefly reviews the opportunities to apply value capture mechanisms within the WMCA and in particular the UKC Hub.

4.2 WEST MIDLANDS COMBINED AUTHORITY

WMCA is a strategic authority with powers over transport, economic development and regeneration. It comprises seventeen local authorities and three Local Enterprise Partnerships (LEPs), which have come together to negotiate a devolution deal with Central Government to transfer powers to the West Midlands.

WMCA’s activities are driven and shaped by its SEP, which sets out the vision, objectives, strategy and actions to improve the quality of life for everyone who lives and works in the West Midlands. The vision is “Making our mark ...” so the West Midlands is the best region in the UK to do business.” The broad aim of the SEP is to create 500,000 extra jobs and secure Gross Value Added (GVA) per head 5% higher than the national average by 2030.

The following sections look in more detail at WMCA’s strategy for growth, investment tools and strategic projects.

(i) STRATEGY FOR GROWTH

WMCA recognises that the West Midlands economic strength is in advanced manufacturing and engineering, but also increasingly several growing dynamic sectors, including creative, digital and life sciences, that are playing a growing role in the area’s successes. The West Midlands also has the potential to become a destination for European HQs in financial services and become an internationally significant e-commerce and logistics hub.

The SEP identifies eight objectives: economic growth, employment and skills, accessibility, business competitiveness and productivity, land, public service reform, housing, and environment. It sets out eight priority actions: new manufacturing economy, creative and digital, environmental technologies, medical and life sciences, skills for growth and employment for all, housing, exploiting the economic geography, and HS2 Growth. The HS2 Growth Strategy is discussed further below.

The WMCA has outlined several key priority areas and issues for the West Midlands:

ECONOMIC

The West Midlands region is renowned for its innovation – its businesses account for almost 10% of UK R&D expenditure, much of which is delivered in partnership with local universities. It has some of the best performing educational institutions in the country and has particular strengths in digital technology and computer science, healthcare, business administration, engineering and technology, and education. The region also has a range of internationally recognised research institutions. The WMCA has ambitious plans to build on these strong foundations.

These plans focus on using the West Midlands geography to create an economy which is the strongest outside London and contributes fully to the Government’s vision of a wider “Midlands Engine for Growth.” If the region grows at the same rate as the London economy, then the West Midlands will be £26.4 billion better off by 2030.

SKILLS

The WMCA recognises that the West Midlands suffers from a significant shortage of skills both at the lower and higher ends of the skills spectrum. The skills deficit is reflected in the high levels of unemployment (9.3%) across the seven Metropolitan Authorities. Therefore, skills is one of the WMCA’s key priorities.

TRANSPORT

Another priority is a fully integrated rail and rapid transit network that connects the main centres with quick and frequent services, and that increases the number of people who can readily access HS2 stations and main centres. By delivering this, it will reduce transport’s impact on the environment, improving air quality, reducing carbon emissions and improving road safety. The resulting network will enable the efficient movement of goods to help businesses to connect to supply chains, key markets and strategic gateways.

HOUSING

The West Midlands has a large and ever-increasing population, which needs to be accommodated for in the future, and therefore housing is also one the WMCA’s key priorities. This will be assisted by the establishment of a Land Commission to help identify the land which can be used or regenerated to create homes for the future.

(ii) INVESTMENT TOOLS

The ‘Devolution Deal’ agreed with Government will see it make an annual contribution worth £40 million for 30 years to support an overall investment package that will unlock a £8 billion investment package aimed at improving productivity and skills, delivering new transport infrastructure and homes and increasing the general prosperity of the region’s four million people. The WMCA has initiated several mechanisms to help support its aspirations:

Collective Investment Fund (CIF)

CIF is a £70 million commercial development war-chest that aims to stimulate jobs, opportunity and growth. It is forecast that the CIF will help unlock a further £1 billion private sector investment over the next 10 years. The Fund provides short-term loans to private sector developers who struggle to access all the funding they need to get schemes off the ground and secure the necessary funding from banks.

LAND REMEDIATION FUND

The Investment Board will oversee the WMCA’s £200 million land remediation fund which is designed to bring utilisable brownfield sites across the region back into economic use for employment or housing.

WEST MIDLANDS LAND COMMISSION

The West Midlands Land Commission (WMLC) has been set up to provide independent advice and recommendations to the authority as it seeks to secure an improved and balanced supply of land to meet its goals for economic growth, new jobs and housing.

Identifying enough land is considered crucial for the WMCA to meet future housing demand and deliver its Strategic Economic Plan. The establishment of the WMLC comes as the WMCA seeks to develop an extra 1,600 hectares of former industrial sites, or brownfield land, for commercial use over the coming decade.

(iii) STRATEGIC PROJECTS

In June 2016, the WMCA published its Investment Prospectus. This important document showcases over £8 billion worth of key projects that are available for investment in the West Midlands. A few of the strategic initiatives are outlined below – each will involve significant investment in new infrastructure.

HS2 CURZON

Birmingham will be at the heart of the UK High Speed Rail network. This will include a brand new city centre HS2 station – Birmingham Curzon – together with a National College for High Speed Rail (the city is already home to the national High Speed Rail Construction Headquarters). The Birmingham Curzon masterplan sets out the City Council’s aims for the station and demonstrates the regeneration potential of the area that could result in a £14 billion economic uplift. Business Rates retention within the Enterprise Zone has been identified as one of the mechanisms to fund the proposed infrastructure investments.

MIRA TECHNOLOGY PARK

Located at the automotive heart of the UK, MIRA Technology Park is Europe’s leading centre for transport research and development. Set in 336ha, the Park provides access to world class engineers and independent resources, including a 100km proving ground, more than 37 major test laboratories, and over 600 consultants. MIRA Technology Park offers a campus designed to serve our residents’ every need. It offers flexible property solutions, from start-up offices and workshops to bespoke buildings designed and built to your precise R&D requirements.

M6 JUNCTION 10 LOCATION

The corridor linking Walsall Town Centre with the M6 offers the opportunity to deliver a mix of renewal and redevelopment to evolve new attractive residential communities and front residential employment land for high-quality manufacturing and logistics businesses serving the regional economy. The area’s typical Black Country mix of homes and industry extends alongside the railway and canals to the north. Within the corridor, the Town Centre, Wythall & Essington and Walsall canals, the A444 and Pleck Road, and the Walsall to Cannock railway connections offer the major areas for residential growth. The major employment opportunities in this area form part of the Black Country Enterprise Zone. The redevelopment of the Enterprise Zone site adjacent to M6 junction 10 will start the transformation of this former heartland of Black Country.
I54 WESTERN EXTENSION

The area around i54, one of the largest strategic employment sites in the UK, is rapidly becoming one of the premier high quality employment locations in the West Midlands and a key gateway to Wolverhampton and the north of the Black Country. Having attracted high quality blue chip companies in Jaguar Land Rover and Moog Aerospace, the site is living evidence of the huge economic potential of this area to attract investment.

The Western Extension to i54 offers the opportunity for the region to offer opportunities to further develop the region’s engineering base, with advanced manufacturing, transport technologies, environmental technologies, building technologies, and business services identified as five transformational sectors for the site.

(iv) ROLE OF VALUE CAPTURE IN DELIVERING THE WMCA VISION

The SEP, HS2 Growth Strategy and Investment Prospectus outline a significant programme of investment and development, much of which is underpinned by new or improved infrastructure.

If the WMCA is deliver its ambitious vision then it will need to ensure that its relatively limited direct resources are, wherever possible, recycled and lever significant amounts of private investment. Consequently, value capture will need to be a core part of its approach.

4.3 MIDLANDS HS2 GROWTH STRATEGY AND UKC HUB

The Midlands HS2 Growth Strategy sets out the opportunities that the arrival of HS2 will afford the region. It aims to leverage the benefits delivered by HS2 to drive local growth on a nationally-significant scale over and above the construction of HS2, through targeted packages of interventions that are tailored to the local context. It will ultimately drive job creation, increase productivity and generate net national growth, such that the investment will pay for itself over time.

The vision of the Growth Strategy is that two world class integrated stations for the high speed rail network at Curzon and UKC Hub will be delivered and that around each station major development zones will emerge that will attract inward investment, create internationally competitive business hubs, be home to sustainable residential communities and attract visitors to the Midlands.

The development of an effective value capture mechanism will be essential if this secondary and in some cases tertiary infrastructure is to be funded. Given the nature of the assets in the area, such as the Airport and the NEC, there are a number of mechanism that could be considered, such as car parking levies or specific tax hypothecation.

The UGC will have a critical role to play in ensuring the necessary infrastructure is delivered in phases and value is captured. In relation to the HS2 Interchange Triangle site, it will be important to have a vehicle that can engage with private sector developers and a long-term agreement to ensure parties are ’tied in’ and value does not escape too early. Figure 4.1 shows how such a structure could operate.

Figure 4.1: HS2 Interchange – landowner (joint venture / collaboration agreement)
This initial note has clearly identified the case for value capture. It has highlighted that:

- major infrastructure improvements have the potential to generate a wide range of benefits. However, the scale and nature of these benefits will vary substantially and some businesses and individuals will probably actually lose. In the long-run market mechanisms mean that the benefits involved are likely to come to be capitalised to a large extent in property values;

- such improvements may have significant potential effects in unlocking developments, the intensification of activities or change of use, which might otherwise happen. In any event, the value thus created represents an obvious potential target for value capture initiatives;

- the benefit principle of taxation supports an approach of seeking to secure finance for improvements based upon the enhancement effects on development and property values. There may be opportunities to hypothecate tax and also to consider other approaches such as user charges;

- however, there is no agreed or consistent approach to capturing value, although there are a number of UK and international examples of where value capture techniques have been successfully applied;

- there are a variety of potential value capture mechanisms, which can be grouped into the following categories: commercial mechanism, planning mechanism, taxation and leveraged borrowing, voluntary business contributions and user charges;

- there is no singled favoured mechanism and a packaged approach, bespoke to the specific circumstances of any investment is likely to be required based on an agreed suite of approaches (or tool kit), and

- the WMCA SEP, HS2 Growth Strategy and Investment Prospectus outline a significant programme of investment and development, much of which is underpinned by new or improved infrastructure. If the WMCA is deliver its ambitious vision then it will need to ensure that its relatively limited direct resources are, wherever possible, recycled and lever significant amounts of private investment. Consequently, value capture will need to be a core part of its approach.

**5.0 CONCLUSIONS**

**APPENDIX 2 >>>
LONG LIST OF MECHANISMS REVIEW**
A.2 LONG LIST OF MECHANISMS REVIEW

ASSESSMENT OF POTENTIAL MECHANISM

A long-list of potential mechanism has been considered. The long-list of mechanisms have been assessed on the basis of their ability to meet four critical success factors (CSFs), as follows:

- **Strategic fit** – consideration of the extent to which alternative options meet the strategic goals and achieve the specific objectives of the WMCA,
- **Achievability** – an assessment of whether the alternative options can be delivered reflecting upon the key risks, constraints and inter-dependencies,
- **Acceptability** – consideration of the extent to which the alternative options are acceptable to the key project stakeholders; and
- **Affordability** – the extent to which the alternative options are likely to be affordable.

The assessment has been used to identify the appropriate options to short-list and take forward for more detailed analysis. The results are set out in Table A1.

Each option should be scored objectively against a range of criteria: strategic fit (is the option likely to adequately meet the business need and objectives identified?); you should also identify and take into account any critical success factors; achievability (can the option be delivered in the necessary timescales, and do the Department and delivery partners have the necessary skills and capacity?); acceptability (is the option acceptable to key stakeholders) and affordability (is the option likely to be within the range of the budget available).

An example of the sort of table you can use to sift long-listed options is below. More complex scoring methods on a scale can also be used, but explain any methodology, scoring or weighting system being used. Evidence used to assess long-listed options can be referenced and appended as an annex.

### TABLE A2: LONG-LIST OF POTENTIAL MECHANISM

<table>
<thead>
<tr>
<th>MECHANISM</th>
<th>CRITERIA</th>
<th>STRATEGIC FIT</th>
<th>ACHIEVABILITY</th>
<th>ACCEPTABILITY</th>
<th>AFFORDABILITY</th>
<th>SHORT-LISTED</th>
</tr>
</thead>
<tbody>
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**Source:**
Public sector assets/ Compulsory purchase/ direct commissioning

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<th>AFFORDABILITY</th>
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<tr>
<td>Provides a clear route to achievement of policy objectives</td>
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<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Yes</td>
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<td>Yes</td>
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<td>Land owners may have grounds for objection to individual aspects of a CPO in general</td>
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<td>Low</td>
<td>Yes</td>
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<tr>
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<td>High</td>
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<td>Medium</td>
<td>Medium</td>
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<td>High</td>
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**Source:**

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<tr>
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<th>STRATEGIC FIT</th>
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<th>ACCEPTABILITY</th>
<th>AFFORDABILITY</th>
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<td>Medium</td>
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<td>Medium</td>
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<tr>
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<tr>
<td>A contractual relationship would enable a performance agreement to be negotiated and agreed. Voluntary agreement may be possible in a non-contractual situation</td>
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<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Provides a possible route to achieve policy objectives</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Partnership arrangements could range from facilitating works by a single provider to joint ventures with multiple suppliers, electricity, water and telecoms providers</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>There are prospects of engaging with utility companies e.g. the National Grid Utilities Group (NGUG) is committed to driving down street works standards across the UK</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Costs may range from low in the case of informal partnership agreements to high in relation to formal JV agreements</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LONG LIST OF MECHANISMS REVIEW</th>
<th>CRITERIA</th>
<th>STRATEGIC FIT</th>
<th>ACHIEVABILITY</th>
<th>ACCEPTABILITY</th>
<th>AFFORDABILITY</th>
<th>SHORT-LISTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a clear route to achievement of policy objectives</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Planning agreements have a statutory basis in S.106 of the Town and Country Planning Act 1990 and highway agreements under S.278 of the Highways Act 1980</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Obligations are required to be justified and evidenced in order to achieve acceptability</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Costs are involved in establishing charging frameworks, negotiating individual agreements, and collecting charges for individual developments</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
### Existing/fiscal/government mechanism - Council Tax
- **High**
- **Medium**
- **Yes**

Council Tax is a levy on domestic property which was introduced in 1990 by the Local Government Finance Act 1992. Local authorities set rates and collect payments based on VOA property valuations to fund local services. Hypothecation for specific infrastructure would involve local consultation and agreement.

### Existing/fiscal/government mechanism - Stamp Duty Land Tax
- **High**
- **Medium**
- **Yes**

Stamp Duty Land Tax (SDLT) is levied on all purchases of property over £125,000 for residential properties and £500,000 for non-residential (land and properties) in England, Wales and Northern Ireland. Local consultation would require government approval.

### Existing/fiscal/government mechanism requiring specific designation/approval
- **Full or user charge**
- **High**
- **Medium**
- **Yes**

The Local Government Act 2003 (LGA) provides a potential basis on which local authorities can charge for services. However, appropriate provision would need to be clarified on a case by case basis.

### Potential new mechanisms
- **Stamp Duty Land Tax**
- **High**
- **Medium**
- **Yes**

The Centre for Cities has indicated that the devolution of stamp duty revenues would significantly strengthen the financial incentive to permit more economic development in local authority areas, particularly in high growth and high demand cities.

### Capital Gains Tax/Chargeable gains
- **Capital Gains Tax (CGT)**
- **High**
- **Medium**
- **Yes**

CGT is levied on the disposal of property (other than a principal residence) including business premises and land (currently at 20% on the uplift value of residential property, and at 25% for other chargeable assets). Chargeable Gains are payable by limited companies as part of Corporation Tax. Local distribution would require government approval.

### Existing/fiscal/government mechanism
- **Business Rates retention**
- **High**
- **Medium**
- **Yes**

Business Rate Supplements Act 2009 provides a potential clear route to achievement of policy objectives. Implementation is dependent on consultation and the ballot of local businesses where a Business Rate Supplement would amount to more than 3% of the cost of a particular project.

### Existing/fiscal/government mechanism - New Homes Bonus
- **High**
- **Medium**
- **Yes**

The New Homes Bonus was introduced in February 2011. Reforms were introduced in 2016, including phased reductions in payment periods from 6 years to 2 years.

### Potential new mechanism - Enterprise Zone
- **High**
- **Medium**
- **Yes**

Enterprise Zones are a potential option to attract businesses. There are no formal powers for E2s, although the solution may be explored in consultation with local authorities, including Local Enterprise Partnerships and Local Planning Authorities. The GLA and TfL have indicated that a potential route to achievement of policy objectives is for the GLA to implement an Enterprise Zone (EZ) in the London area.

### Existing/fiscal/government mechanism - Toll or user charge
- **High**
- **Medium**
- **Yes**

The Local Government Act 2003 (LGA) provides a potential basis on which local authorities can charge for services. However, appropriate provision would need to be clarified on a case by case basis.

### Existing/fiscal/government mechanism - Business Rates precept (specific zone or wider area)
- **High**
- **Medium**
- **Yes**

Implementation is dependent on consultation and the ballot of local businesses, where a Business Rate Supplement would amount to more than 3% of the cost of a particular project.

### Potential new mechanism - Voluntary business contributions
- **High**
- **Medium**
- **Yes**

Proposals are likely to meet with strong opposition from businesses. Costs would be involved in the collection and administration of charges from businesses.

### Existing/fiscal/government mechanism - Liveability levy
- **High**
- **Medium**
- **Yes**

The GLA and TfL have indicated that a potential route to achievement of policy objectives is for the GLA to implement a ‘Liveability Levy’ in the London area. The levy would be used to fund local infrastructure projects such as cycle schemes, and to provide funding for local amenity projects such as greening schemes.

### Existing/fiscal/government mechanism - Business Improvement Districts
- **High**
- **Medium**
- **Yes**

Proposals are likely to meet with strong opposition from users, depending on the use and the level of charge. Costs would be involved in the collection and administration of charges from users.

### Existing/fiscal/government mechanism - Existing fiscal/government mechanism
- **High**
- **Medium**
- **Yes**

Proposals are likely to meet with strong opposition from users, depending on the use and the level of charge. Costs would be involved in the collection and administration of charges from users.

### Existing/fiscal/government mechanism - New Homes Bonus
- **High**
- **Medium**
- **Yes**

Proposals are likely to meet with strong opposition from users, depending on the use and the level of charge. Costs would be involved in the collection and administration of charges from users.

### Existing/fiscal/government mechanism - Toll or user charge
- **High**
- **Medium**
- **Yes**

Proposals are likely to meet with strong opposition from users, depending on the use and the level of charge. Costs would be involved in the collection and administration of charges from users.

### Existing/fiscal/government mechanism - Council Tax
- **High**
- **Medium**
- **Yes**

Proposals are likely to meet with strong opposition from users, depending on the use and the level of charge. Costs would be involved in the collection and administration of charges from users.
<table>
<thead>
<tr>
<th>Corporate Tax</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives but not clearly linked to value uplift</td>
<td>Corporation Tax is an excise duty levied on the sale of luxury goods and services such as cars, tobacco, and alcoholic beverages. However, it is not well understood how this approach would achieve the policy objectives. Costs would be borne by the central government.</td>
<td>This approach would not clearly support the achievement of the policy objectives.</td>
<td>Costs would be borne by the central government.</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Land Value Tax</th>
<th>High</th>
<th>Low</th>
<th>Low</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives</td>
<td>Land Value Tax is based on the market value of land and properties. However, it is not well understood how this approach would achieve the policy objectives. Costs would be borne by the central government.</td>
<td>This approach would not clearly support the achievement of the policy objectives.</td>
<td>The potential to establish this mechanism should be kept under review.</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Taxes (Income Tax and National Insurance)</th>
<th>Low</th>
<th>Low</th>
<th>Low</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives but not clearly linked to value uplift.</td>
<td>Employee taxes are levied on earned income and are the main source of government revenue. However, it is not well understood how this approach would achieve the policy objectives. Costs would be borne by the central government.</td>
<td>This approach would not clearly support the achievement of the policy objectives.</td>
<td>Costs would be borne by the central government.</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Development Rights Auction</th>
<th>High</th>
<th>Low</th>
<th>Low</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives</td>
<td>Under this proposal, landowners and the public sector would post land for development in areas suitable for high-density schemes. However, it is not clear how this approach would achieve the policy objectives. Costs would be borne by the central government.</td>
<td>This approach would not clearly support the achievement of the policy objectives.</td>
<td>This approach would need to be highly likely to make sufficient revenue to be brought forward.</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Air Passenger Duty</th>
<th>High</th>
<th>Medium</th>
<th>Medium</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives</td>
<td>Air Passenger Duty is an excise duty levied on the sale of luxury goods and services such as cars, tobacco, and alcoholic beverages. However, it is not well understood how this approach would achieve the policy objectives. Costs would be borne by the central government.</td>
<td>This approach would not clearly support the achievement of the policy objectives.</td>
<td>If devolution of APD took place, costs would be retained in the collection and administration of revenue.</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Allowances/Tax Relief</th>
<th>Medium</th>
<th>Medium</th>
<th>Medium</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives</td>
<td>Capital Allowances would be a possible route to achieving the cost of certain business assets (including plant &amp; machinery and renewal of business premises) to be written off against taxable profits. Other allowances include Land Remediation Relief and Derelict Land Relief. Local distribution would require government approval.</td>
<td>It is possible that extension of capital allowances and/or other allowances could be granted by Government (as for example Enhanced Capital Allowances in certain EAs), in relation to infrastructure.</td>
<td>It is likely that costs would be borne by the central government.</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tourism/Hotel and other sales Taxes</th>
<th>Medium</th>
<th>Medium</th>
<th>Medium</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives</td>
<td>A ‘tourist bed tax’ could be levied on a per person per night basis, and is a common feature in European and other destinations. Local sales taxes are also a common feature in Europe and the USA, and have been considered over a period of more than 20 years in the UK. Legislation would be required.</td>
<td>Imposition of a ‘tourist bed tax’ has been suggested in London and Bath, and previously in Edinburgh. This has caused significant opposition from the tourism sector. Issues have previously been raised with local sales taxes in terms of design, ‘cross-border’ shopping, and equity.</td>
<td>Costs would be retained in the collection and administration of local tax revenues.</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gambling Duties</th>
<th>Medium</th>
<th>High</th>
<th>Medium</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides a possible route to achievement of policy objectives</td>
<td>Gaming Duty is paid on casino gaming profits where gaming takes place in the UK and paid on the gross gambling yield of premises (not on machine gaming play). Local distribution would require government approval.</td>
<td>It is possible that an element of Gaming Duty could be hypothecated to certain designated areas for stated purposes, particularly if this was both raised and retained locally.</td>
<td>It is likely that costs would be borne by central Government in collection and administration of enhanced capital allowances and tax relief and distribution to local authorities.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**TABLE A2 CONTINUED: A2: LONG-LIST OF POTENTIAL MECHANISM**