Unlocking capital investment in local economic development

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About TRL Insight

TRL Insight is the trading name of Tom Lawrence. Tom has provided policy advice, analysis and other services to the public sector for over 20 years. Some of this has been delivered under the TRL Insight brand; some through associate and core staff posts, in a range of organisations in and supporting local authorities and schools and their partners.

This policy advice and analysis has included briefings, guides, magazine/journal articles, training sessions, reports and case studies.

More information about TRL Insight can be found on my website, including the services that TRL Insight can provide, links to TRL Insight's outputs and more information about them on the About and Feeds pages and in TRL insight's May 2023 newsletter.

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Executive Summary

This report shows that *predictability* is the key to unlocking local authority capital investment in growing sustainable communities. With sufficient certainty that they will retain uplifts in local taxes, councils are able to factor this into their planning on prudential borrowing. And with sufficient clarity about the costs and scope of developments, developers are able to contribute more to the costs of infrastructure.

If the government and local authorities adopt our recommendations, they could:

- Unlock billions of pounds of investment across the country;
- Create tens or hundreds of thousands of jobs;
- Provide the high-quality infrastructure and public realm improvements necessary to grow vibrant, modern and well-connected communities;
- Generate tax receipts and savings for the public sector worth hundreds of millions or billions of pounds.

The scale of what can be achieved is amply demonstrated by Newcastle's Accelerated Development Zone, where £50m of borrowing financed by business rate uplifts has part-funded key infrastructure and public realm improvements in three areas of the city. This has resulted in a total investment of around £1bn of investment in these areas, and the construction of dozens of spectacular and sometimes award-winning office blocks, hotels, science buildings, accommodation blocks and other buildings. A similar scale of success could be achieved in many locations around the country, in commercial, residential and mixed areas.

Overview

This report brings together issues raised in many previous publications. Where possible, it provides links to them, to allow readers to go through individual arguments in more detail.

It starts from the Government's ambition to build 1.5 million homes by the end of this Parliament. It explores what is necessary for these to be constructed as part of sustainable communities, focusing particularly on how the supporting infrastructure is funded. Building sustainable communities is viewed as a long-term investment, with upfront costs being exceeded by eventual returns through increased local and national tax yields, developer profits and ongoing savings on state costs.

Most infrastructure must be provided at the outset or early in the construction phase. Local authorities' contributions to this must be paid for from a mix of borrowing and grants. The borrowing will need to be repaid with interest over time. Most of the headroom in local authority budgets to meet the financing costs of this borrowing could, at least in theory, come from uplifts to local taxes: council tax and business

rates. A smaller proportion may come from contributions from developers at various times after the construction commences.

The report identifies practical impediments to councils' investment in such developments, arising from the local government finance system and uncertainties about the total costs and time frame for developments.

Collaboration on mapping out infrastructure requirements at both the strategic level and the planning authority level could reduce uncertainties about developments – their time frame and the costs to be borne by developers. The proposed Strategic Authorities provide an opportunity for this. The extra clarity could help to bring down developers' budget margins for risks, such that they can afford to contribute more towards infrastructure costs. However, to maximise income from the Community Infrastructure Levy, greater clarity about its purpose and flexibility at the local level over its operation may be needed.

But by far the bigger problem for local authorities is that they cannot borrow against uplifts in local taxes, as they cannot be certain of retaining these uplifts.

The opacity and complexity of the Business Rate Retention system means that they cannot be certain that the uplifts will not be equalised away. The Government has now started a process to reform this system, which provides an opportunity to address these problems. This report considers and makes recommendations on what reforms would provide sufficient certainty of retaining local tax uplifts. This includes a new round of Tax Increment Financing agreements, which would additionally include residential areas with infrastructure financed from uplifts to council tax.

In addition, trends such as the rise in remote working and online sales make the growth of business rate base more difficult to predict. Both business rates and council tax are based on property values rather than profit or income, yet these are the only taxes that councils can levy. This creates an increasing tension between councils' growing expenditure needs and the difficulty some bill payers have in paying these bills. This is particularly the case during economic downturns, and for businesses selling from physical premises who have to cope with competition from online retailers.

This has led to the government constraining rises in council tax rates and the business rate multipliers and regularly introducing new business rate reliefs (and recently, new multipliers). Not knowing what policy changes may be coming down the line makes it too difficult to predict local tax uplifts to borrow against them. We therefore explore how councils' tax bases could be broadened in ways which would ease these tensions. The reforms we propose to the Business Rate Retention system would make equalising between local authorities for new taxes easier to achieve.

Many of the ideas and arguments in this report previously appeared in briefings and guides I (Tom Lawrence) authored for LGiU between 2013 and 2017.

Recommendations for Government

This report makes the following recommendations for the Government.

General reform of the Business Rate Retention system and New Homes Bonus (Section 4.6)

- When the BRR system is reset in 2026/27, the calculation of new tariffs and top-ups should not involve any needs or resources 'thresholds' or a 'central allocation' – they should just be composed of the following (not necessarily in this order – see recommendation further down the list):
  - A needs assessment;
  - A resources deduction – for both council tax and business rates in the baseline year, at the same stage of the calculation;
  - A damping/transitional mechanism
- For any reset for a multi-year period, redistributing all business rates growth since the previous reset (the baseline year) would be the worst option for stability and could create an incentive not to add hereditaments to rateable value in reset years;
- Conversely retention of all BR growth at reset could entrench trajectories of growth and decline;
- The Government should model the redistribution of each year's business rate growth a fixed number of years later – a 'rolling reset of growth'; this could turn out to be the best blend of stability, retaining uplifts resulting from growth and providing timely additional funding for disadvantaged councils;
- A partial redistribution of growth is likely to be the next best option;
- Avoid using taxbase projections in the resource deduction: councils would then need to exceed the growth that they describe before they receive more from tax than is deducted through equalisation. If the growth used in the projection is from an exceptional year, it may be several years before they achieve this;
- The Government should carry out modelling of the use of council tax base data from several years before each reset in the resource deduction, to see if this provides more years' uplifts (and whether there are any unwanted side effects);
- Choose a simple damping/transitional mechanism, which treats all authorities in similar ways – a "blending in" (or "pace of change")

mechanism appears sensible, but it would be prudent to carry out some modelling to determine whether there are any unforeseen flaws with it;

- Whether it is best to apply the transition mechanism to just the needs assessment or apply it after deducting for the taxes is likely to depend on the way in which business rate growth is redistributed. There is logic to suggest that for a redistribution of growth at multi-year intervals, it is best to apply after the resource deductions, while for a 'rolling reset of growth' it is best to apply just to needs. The Government should carry out modelling of these options to determine whether the above arguments are borne out and whether there are any unforeseen flaws in these proposals.

- Use the budget for NHB to:

  - continue to provide additional funding for affordable housing, if this is felt desirable (given the increases that are already happening to the affordable homes budget)

  - pay a top-up to retained council tax for lower band properties, to reduce the differential in income from different values of property

Tax Increment Financing (Section 4.6)

- Create a fresh round of agreements similar to New Development Deals. These would relate to specific geographic areas to be regenerated. Within these areas, councils retain all growth in business rates, council tax or both, for an agreed period, at least until an agreed level of initial borrowing is paid off. The additional receipts should be excluded from redistribution at BRR resets and from any other changes to the business rates, council tax and local government funding systems;

- The Government should consult with local authorities, including those who have been involved in Tax Increment Financing to date, to determine appropriate criteria for agreeing these deals, based on ensuring the following:

  - That the schemes are viable, through providing sufficient certainty that borrowing can be repaid to schedule;

  - That the local tax receipts are, for the most part, additional to what would be generated without the mechanism;

  - Evidence for meeting the criteria is simple to provide (not overly onerous) and not such that schemes are artificially limited (for example, there should not be a 'but for' test which is difficult to meet);

- Capital investment can be unlocked in many locations across England;

- There should be no national cap on the combined total of the sums borrowed.

Developer contributions (Section 5.1)

- Reshape CIL as "Cumulative Infrastructure Levy" and consult on how it may be made more flexible, to ensure it is viable for developers to contribute to the cumulative costs of infrastructure anywhere in the country. This may, for example, involve removing fixed percentages for the neighbourhood portion, to be replaced by proportions based on evidence and community consultation. It may involve giving planning authorities flexibility over the basis on which it is charged, in consultation with upper-tier and strategic-level authorities;

- Provide clear guidance that Section 106 is intended for site-specific infrastructure and affordable housing and CIL is for cumulative infrastructure needs, and that both types of infrastructure are required for most, if not all, developments.

- Remove the legal restriction from borrowing against CIL.

Grant funding (Section 5.2)

- Review the Housing Infrastructure Fund and identify any weaknesses. Continue to provide grant funding for infrastructure targeted at unblocking stuck sites, incorporating any learning from the review;

- Ensure that the 'gain share' principle continues to be recognised in the provision of the Investment Funds and that the amounts that are provided reflect this principle.

Broadening the local tax base (Section 6.2)

- Devolve to local authorities the power to set ratios between the rates charged for council tax bands;

- Adopt a principle that business rates reliefs should by default be set locally; if the Government wishes to encourage councils to provide reliefs for certain purposes by providing funding, that is reasonable, but the decision should be a local one. The Government should cease introducing mandatory reliefs and new multipliers in all but exceptional circumstances, where there is a particular reason that national consistency is required;

- Consult with local authorities and businesses on how legislation on Business Rate Supplements may be amended, to make this tool available in practice to those authorities listed in the legislation;

- Begin to develop options for broadening the local tax base immediately, and commit to introducing powers by the end of the Parliament for local authorities to levy i) at least one new tax or charge on businesses or adding a local supplement to an existing business tax and ii) at least one new tax or charge on individuals/households or adding a local supplement to an existing tax on them. Focus on taxes which are based on ability to pay;

- Consult on how this should be achieved without increasing the overall burden of UK taxes – whether by reducing the existing local taxes or by equalising for the new tax/charge in the Business Rate Retention system and correspondingly reducing grants to local government;

- Work with local government to determine the appropriate mechanisms to handle fluctuations in yield from the new taxes/tax supplements/charges.

Recommendations for local government

Developer contributions (Section 5.1)

- Discussions between:

    - Upper-tier authorities,

    - Lower-tier authorities for that area, (where these are separate)

    - and where they currently exist, strategic-level authorities (GLA, Combined Authority, Combined County Combined Authority),

  on how to:

    - make strategic planning and local planning more inclusive – how to make it resident-led, engaging with developers, infrastructure providers, anchor institutions and other employers, and town/parish/neighbourhood/community councils, and

    - how to ensure better alignment between strategic and local planning;

- Map out strategic and community infrastructure needs at the strategic and local levels, and ensure these are in conformity. Where strategic-level authorities do not currently exist, there is nothing to prevent authorities collaborating to produce Strategic Infrastructure Plans, as the authorities listed on page 27 have done. Where they do exist, we recommend these

needs be mapped out clearly in one document, to supplement Spatial Development Strategies. We recommend the later Aecom reports as a model of clarity for this purpose;

- Find mechanisms for disseminating best practice on strategic and local planning and ensure that all relevant authorities have access to it.

- Ensure collaboration between planning authorities, upper-tier authorities (where these are separate), and where they currently exist strategic-level authorities, to ensure that all infrastructure needs are reflected in Infrastructure Delivery Plans and other relevant local strategies and documents;

- Consult with developers and with other authorities in the sub-region to create charging schedules for Section 106 as well as CIL. Be clear with developers that both types of contribution may be required for any given development. Incorporate modelling of the amounts that may be raised into strategic infrastructure planning.

1. Context

We start this report by looking at the context within which local authority capital investment is occurring, both political and socio-economic.

We first identify how infrastructure and the roles of local authorities are crucial to the delivery of the Government's ambitions for kickstarting economic growth and building new homes. We then turn to the societal trends affecting housing need and the use of high streets and town centres. Finally, we look at how the incoming Government has responded to these trends and the state of the country today. We summarise what major policy documents published by the Government have said regarding four topics that have a bearing on the subject matter of this report.

1.1 The role of local authority capital investment in building sustainable communities

The new Labour government has made growth its number one priority. On taking power, it confirmed that "kickstarting the UK economy to achieve the highest sustained rate of economic growth in the G7" was one of its five priority missions. Since then, these missions have been mapped into "Milestones for Mission-Led Government" in the *Plan for Change*[1].

The Government recognises the importance of capital investment to achieving this growth – as evidenced by its adoption of a seven-pillared investment strategy and its change to the primary measure of public sector debt. Capital investment also plays a role in all of the Government's other missions:

- Making Britain a "Clean Energy Superpower" – this requires building renewable energy generation sites such as solar farms, wind turbines and aerobic and anaerobic digestors, building energy storage solutions, creating electric vehicle charging infrastructure, creating low carbon developments and upgrading existing ones for improved energy efficiency.
- Building an NHS "Fit for the Future" – this requires new NHS sites to be built and improvements to existing ones, such as GP surgeries, health centres and hospital wings, tailored to modern needs.
- Breaking down barriers to opportunity (through giving children the best start in life and education improvements) – each stage in a person's education, from early years to higher and adult education, requires decent facilities in well-designed buildings, from Sure Start centres and nurseries to universities and colleges.

[1] This also has a page on "Strong Foundations", which is not one of the five missions.

- Creating safer streets – well-designed public realm and residential development can cut crime.

As APSE's 2024 report *Kickstarting Economic Growth* explains, there is a crucial role for the public sector in such investment for growth, and in particular for local government. It describes how "real reductions in public spending and investment since 2010" reduced growth, "by lowering aggregate demand and weakening the supply capacity of the economy". The fall in public spending as a share of GDP ended up increasing public debt as a share of GDP. Regarding the future, it quotes the Office of Budget Responsibility:

> *"We find a sustained 1 per cent of GDP increase in public investment could plausibly increase the level of potential output by just under ½ a percent after five years and around 2½ per cent in the long run (50 years)".*

While the Government's focus for capital investment is on infrastructure that links up and serves the country as a whole, local authorities' primary concern is that the communities they serve grow sustainably.

The Government has set a target of building 1.5 million new homes over the course of this parliament – this is the "milestone" associated with the economic growth mission. But people living in these homes will need businesses to supply them with goods and services and provide them with employment, particularly in their surrounding area. Therefore, new retail, office, industrial and other business premises will need to be built.

These new neighbourhoods will need supporting infrastructure, such as:

- Roads and railways
- Water mains and sewerage
- Electricity, telephone and internet cables
- Parks and leisure centres
- Libraries
- Schools
- Waste amenities
- Health and social care centres.

The adequacy of such infrastructure is an important determinant of the economic success of an area. As *Improving infrastructure funding and delivery*, a report by Pragmatix Advisory for County Councils Network in 2023, puts it:

"Insufficient or poor-quality infrastructure contributes to some areas being seen as less desirable than others – adding to housing pressures in high demand areas. It is also a major factor in geographical inequalities, for example whether residents are able to access high-quality healthcare, education and jobs. In some cases, it can lead to areas feeling remote and cut-off.

Once an area has fallen behind, it can be difficult to recover. Labour markets can be depressed, reducing demand for relocating to them. Infrastructure investment can help reverse a cycle of decline."

As we shall discuss in the next section, infrastructure also has an important role in catering to environmental and social change.

The construction of homes, business premises and infrastructure are all examples of capital spend. And local authorities have a crucial role in all of it.

The Government has a tendency to focus almost exclusively on their role in planning determinations, particularly for individual development proposals. It is true that these can take up considerable officer time, which needs to be resourced. But in terms of decision making, councils handle planning applications in a "quasi-judicial" way, with little scope for deviation from strict application of existing rules.

They have more autonomy when it comes to setting the long-term vision for how their area will develop (we will consider aspects of this later in this report) – this then becomes the part of the criteria against which individual planning applications are judged.

The very fact that they are the political authorities for their areas, tasked with overseeing the wellbeing of their citizens in many aspects of life, also counts for a lot. This is where their unique knowledge of their communities' strengths and challenges and the needs of their residents comes to the fore. They can bring together all the various stakeholders in a development project, help to coordinate their inputs and map out any missing provision.

However, a key theme of this report is the extent to which they are significant investors themselves. In the past, they have been major providers of social rented housing, and recent political developments may facilitate this happening again in the future, as we shall briefly describe in Section 1.3. But they also have a vital role as providers of local infrastructure, such as highways, parks, waste facilities and neighbourhood amenities, and as partners in regeneration schemes, for example in town centres and industrial areas.

In Section 4.5, we will look at a case study of this: how Newcastle City Council has worked with partners such as Newcastle University to regenerate three areas within the city centre. Its main role as an investor has been in providing infrastructure and public realm improvements. £50m of borrowing and £70m of grant funding has drawn in vastly more private investment, resulting in an estimated total of around

£1bn of investment and the construction of dozens of spectacular and sometimes award-winning office blocks, hotels, science buildings, accommodation blocks and other buildings.

Similarly, *Kickstarting Economic Growth* describes how:

> "Local assets have also been repurposed either through the local authority purchasing an asset as part of a regeneration scheme or commercial venture whereby they can act as an anchor business within a community attracting other businesses. Public sector assets can also be used as start-up hubs or spaces for new and budding businesses in local areas or to attract a range of services into one area, supporting both resident access to services alongside generating footfall to businesses".

It mentions several ways in which local authority capital investment promotes growth:

- Land supply, land-swaps and redevelopments
- Dealing with failing assets
- Major regeneration schemes in high streets and town centres
- More broadly, investment in high streets, the wider public realm and leisure and culture "to increase the attractiveness of places to new and existing residents, including supporting the retention of graduating students in university towns and cities".

The report cites the examples of Knowsley Council purchasing a dilapidated shopping centre to unlock its town centre regeneration and the work Stockton on Tees Council has done in opening up and refreshing its 'hidden' waterfront and surrounding area.

These ideas are explored in more detail in the 2022 report *Creating resilient and revitalised high streets in the 'new normal'*, written for the Local Government Association (LGA) by Pragmatix Advisory and Trajectory, with many of the local case studies in grey boxes involving capital investment by the local authority.

Once built, many of the infrastructure assets will be owned and run or overseen by local councils. The same is true of council housing. And, of course, councils will need to expand their services to provide them to all the new households and businesses – which has an implication for their revenue budgets.

Such improvements tend to draw in private investment. As described in *Kickstarting Economic Growth*, EY's UK and European attractiveness surveys of private sector leaders have consistently found that infrastructure, quality of life issues such as housing, education and cultural provision, and the existence of local business networks have consistently been identified as important in attracting private investment.

And they have a vital role in tackling climate change and help to, in the words of the *Plan for Change*, “Make Britain a Clean Energy Superpower”. Two examples of this – Viking Energy Network Jarrow and Coventry’s Strategic Energy Partnership with E.On – are described in *Kickstarting Economic Growth*. Many local authorities are partnering with Abundance Investment to drive investment into environmentally beneficial projects.

However, investment by the UK public sector is low by comparison with similar countries. Analysis by the IPPR finds that for the UK to have had the average rate of public investment in the G7 between 2006 and 2021, it would have needed to invest an extra £208bn.

There is a particular problem with local and regional investment. *Insights North East Long Read* (July 2024), states that sub-national capital public financing is of the order of 10-15% of public capital, significantly below that of many international comparators. The *English Devolution White Paper* acknowledges that investment by local government is the lowest in the G7 and ranks 30th out of 38 OECD countries. This is accompanied by low local government spend on economic development and planning. *Kickstarting Economic Growth* states that since the mid-2000s, local council funding for economic development and planning has been reduced by over 40%, while real spend on infrastructure and transport and housing has fallen by nearly 50%.

Local authority capital spend on developing sustainable communities is a long-term investment which requires vision. In this report, we seek to identify the specific, practical reforms which will unlock this investment. We focus on England, although many of the issues raised may have broader relevance to the rest of the UK.

To do this, we need to understand the current context – both socio-economic and political. More precisely, we need to understand the trends that have been affecting England’s towns and neighbourhoods over recent years and the new Government’s responses to these. Much has been said about this already; in the next sections, we draw together these observations and provide links to existing documents for readers who want greater detail on any aspect of this commentary. Indeed, we do likewise throughout this report.

1.2 Trends affecting England’s neighbourhoods

The Government has correctly identified a growing crisis in housing. The *Kickstarting Economic Growth* section of the Government’s *Plan for Change* lists many symptoms and aspects of this:

- A fall in homebuilding and in the number of homes granted planning permission;
- Homeownership for 19 to 29-year-olds more than halving since 1990;

- The average home costing 8 times the annual earnings of an average worker;

- Private sector tenants spending an average of one-third of their income on housing costs;

- A shortage of social housing leaving over 150,000 children, the highest on record, in temporary accommodation and an increase in rough sleeping of 27% since last year.

Savills also note that:

- In real terms, grant funding for social rented housing is at its lowest level since before 1992;

- In February 2024, the G15 group of London-based Housing Associations issued a warning to the Government that starts by its members were down by 76% in London in 2023–24 compared to the previous year, and down by 37% outside of London.

Alongside this, the nature of England's towns and neighbourhoods has changed significantly over recent decades. In *Creating resilient and revitalised high streets in the 'new normal'*, Trajectory carried a PESTLE analysis of factors impacting high streets. It identified 35 trends across the six PESTLE categories (Political, Economic, Sociological, Technological, Legal, Ethical and Environmental) which were already affecting town centres before the Covid-19 pandemic struck. These include:

- Use of cash being replaced by cashless transactions, coupled with rising consumer expectations for on-demand and prompt delivery of goods and services;

- Availability of things online that were once provided solely by high streets and town centres (such as personal and business goods, administrative transactions and entertainment) – but also online stores increasingly having a physical presence;

- The increasing importance of leisure and hospitality, with consumers going to town centres for "experiences" and entertainment, rather than material purchases;

- The downsizing or collapse of major chain brands and the rise of independent and boutique businesses in the gaps, and high turnover rates for town centre properties;

- Greater need for office space, coupled with increased remote/home working;

- Consumers interested in value-based products and brands, such as those with strong ethical credentials and a low carbon footprint – though this may vary with levels of disposable income;
- Changing age profiles and family structures, with larger numbers of older people and people who do not live with other generations of their family, and increasing ethnic and cultural diversity;
- Increasing pedestrianisation and a rise in multi-use spaces, accompanied by government funding "increasingly taking a more holistic and community-oriented approach to town centres and high streets";
- Greater use of automation.

Many of these trends have been heightened by the pandemic and have only increased since the pandemic struck; other impacts of the pandemic on the high street are also described in rest of *Creating resilient and revitalised high streets in the 'new normal'*.

These changes in the use of town centres have impacts on when and for how long residents visit them and for what reason; consequently, they affect residents' and businesses' infrastructure needs, as well as the nature of the homes which most suit new residents. For example, more homes are needed for single people, couples who do not have children living with them, and people who work sometimes or always from home. Traffic patterns may change if there are fewer people commuting for office hours.

Trends in society and the environment affect other aspects of infrastructure too. For example, there is an increasing need for flood alleviation and mitigating nutrient loss, as well as connections to cables capable of supplying superfast broadband. Facilities also need to be provided to cater for increasing recycling rates.

1.3 Policy development in the incoming government

Since the new government took office, it has published several major policy documents which have a bearing on the subject matter of this report. The policy announcements in these which most relate to this report are summarised in the table in the Appendix, in approximate chronological order. In this section, we give a thematic overview of the policies we will refer to in the rest of the report.

Many of these were trailed in Labour's manifesto for the 2024 general election. For example, Labour committed in the manifesto to building 1.5 million new homes within one parliament, with the restoration of mandatory housing targets within the National Planning Policy Framework (NPPF) and "effective new mechanisms for cross-boundary strategic planning".

Business rate retention and reform of local government finance

The government recognises that allocations through the local government finance settlement are now over ten years out of date. The bulk of these allocations are through the business rate retention (BRR) system. As described below in Section 4.4, this takes as its baseline an assessment of i) needs, ii) ability to raise resources from council tax and iii) business rate income in 2013/14. From the introduction of this system in 2013/14, it was always the intention to carry out a fresh assessment of these at some point in the future and 'reset' the system. For many years, the government's working assumption was that this would happen in 2020. A lot of work was done towards this goal in the period 2016 to 2018, but the changes that were agreed between central government and local government were never implemented.

The new government has now fixed the date for implementing this first reset as 2026/27. They are largely picking up where the review in 2016 to 2018 left off. The first new stage of this was the consultation *Local authority funding reform: objectives and principles*, which was launched alongside the provisional local government finance settlement on 18 December 2024 and closed on 12 February 2025.

The government also intends to reform the rest of the local government funding system, by such reforms as:

- Making multi-year settlements the norm;
- Consolidating grant streams into fewer pots;
- Reducing competition for grant funding;
- Reducing reporting requirements.

Fiscal framework and rules

The *Autumn Budget 2024* announced a new fiscal framework, with changes to the regulatory structure and two new fiscal rules:

- The "Stability Rule" relates to when the current (resources) budget is in balance;
- The "Investment Rule" relates to debt. It uses a measure of debt called Public Sector Net Financial Liabilities (PSNFL, or net financial debt for short) which has not been used in fiscal rules before. It requires this measure to be forecast to be falling as a proportion of GDP by 2029-30 at latest. Thereafter, this ratio should always be falling by the third year of the rolling forecast period.

These changes are explained in detail in a document published alongside the Budget, *A strong fiscal framework*.

Strategic authorities, strategic planning and infrastructure

The *English Devolution White Paper* set out in detail the Government's plan to create in law a tier of Strategic Authorities. There will be three types of these, arranged in a hierarchy shown in Figure 1:

- The GLA, all Mayoral Combined Authorities and all Mayoral Combined County Authorities will automatically begin as 'Mayoral Strategic Authorities';
- Those meeting specified criteria (which are set out) may become 'Established Mayoral Strategic Authorities';
- All other Strategic Authorities will be 'Foundation Strategic Authorities' – including non-mayoral combined authorities, combined county authorities and any local authority designated as a 'Strategic Authority without a Mayor'.

The Government aims for the whole of England to be covered by Strategic Authorities.

Figure 1 - the three types of strategic authority

This should facilitate the kind of strategic planning which has been largely absent at the regional/sub-regional level in England since the abolition of Regional Spatial Strategies in 2011.

This will be done through Spatial Development Strategies (SDSs), which Combined Authorities and Elected Mayors who have strategic planning powers are already required to produce, under the terms of their devolution deals. All Strategic Authorities will be required to produce them, Where Strategic Authorities are not in place, the Government will have a power to direct defined groupings of upper-tier county councils and unitary councils to deliver an SDS, and there will be powers for the Government to intervene when SDSs are "not forthcoming to the timeframe".

The SDS will be used to allocate housing growth, from the total Local Housing Need of constituent authorities (see below). The White Paper states that "The apportioned figure set for each constituent member in the SDS will then be the minimum housing requirement for the purposes of each member authority's next Local Plan". SDSs will

also enable areas to "identify the infrastructure that is needed and strategic locations for development".

The production and implementation of SDSs, including the delivery of housing, should be a collaborative effort between the Strategic Authority and all the principal authorities in the area, both upper- and lower-tier, as explained in Section 5.1.

All Mayoral Strategic Authorities will also need to produce a Local Growth Plan – a new concept – "setting out a long-term vision for growth in their region over the next decade and a roadmap for how this can be achieved". Similarly, Foundation Strategic Authorities "will set out a vision for growth in their area, building on existing local economic strategies where these exist", to be upgraded to a Local Growth Plan "as they become Mayoral Strategic Authorities".

An initial list of seven areas of competence is proposed for Strategic Authorities, which includes:

- Transport and local infrastructure;
- Housing and strategic planning;
- Economic development and regeneration.

Established Mayoral Strategic Authorities will receive 'Integrated Settlements' and other Mayoral Strategic Authorities will have 'consolidated funding pots'. These will include funding for many types of infrastructure, as well as funding for housing and local growth. Other funding streams are also available for Mayors:

- The power of the Mayor of London to levy a Community Infrastructure Levy (see Section 5.1) to support the delivery of strategic infrastructure projects will be extended to other Mayors;
- They will retain their existing 30-year investment funds, to invest in their priorities; and
- Their existing powers to raise a mayoral precept will be extended to cover the full range of their functions.

Strategic authorities will also receive additional powers in relation to building infrastructure, including in relation to renewable energy, energy efficiency and carbon reduction.

Much of this was complemented by a consultation on reforming the National Planning Policy Framework (NPPF) and its eventual outcome. The consultation set out areas in which strategic planning is important – housing needs, strategic infrastructure, growing the economy, improving climate resilience, delivering Local Growth Plans and Local Nature Recovery Strategies. The NPPF was revised to provide further emphasis on the importance of "public service infrastructure", such as

education and health service sites, libraries, emergency services sites and criminal justice accommodation, and extending provisions relating to schools to cover early years and post-16. Wording was also inserted to promote a move from 'predict and provide' transport planning to 'vision led' transport planning.

A collaborative approach on strategic planning was also emphasised in both the NPPF reforms and the White Paper. Several paragraphs and part-paragraphs were added to the NPPF which required and encouraged planning authorities and strategic authorities to work with each other on strategic planning. And the White Paper commited to ensuring that "key Non-Departmental Public Bodies and Arm's Length Bodies, such as Homes England, Network Rail and National Highways, have appropriate regard to relevant Strategic Authority strategies and the shared growth priorities from the Local Growth Plan for the area in their work". It also set out issues on which the National Energy System Operator and Great British Energy will work with strategic and local authorities and pledged "a Homes England that is more responsive to the Mayors". On collaboration with the Government, it set out ways in which the Department for Business and Trade would engage with Mayoral Strategic Authorities to boost business growth.

Housing need allocations and affordable housing

The NPPF is the Government's vehicle for allocating its target of building 1.5 million new homes at local level. Each planning authority already has to calculate its 'housing need' and insert this into its Local Plan. Changes had been made under the previous Government in December 2023 which gave councils more latitude on measuring housing need. The revisions under the current Government have reversed these, making use of a revised 'standard method' mandatory. A spreadsheet was provided alongside the consultation which set out local housing need for each planning authority, based on the revised 'standard method' (the figures differed slightly between consultation and outcome). More detail is given on this in Section 2.1.

Different planning authorities have got to different stages in preparing and agreeing their Local Plans. The revised NPPF sets out how to implement these revised housing need figures, depending on where the authority is in the process and how far the existing figure is adrift from the new one.

The consultation also discusses the appropriate mix of tenures. It states that the Government intends to introduce new measures in 2025 which will include:

- Setting a site size threshold above which sites must deliver a mix of tenures;
- Considering further steps which would support social and affordable housing.

It inserts a paragraph into the NPPF about the benefits of mixed tenure sites:

“Mixed tenure sites can provide a range of benefits including creating diverse communities and supporting timely build out rates and local planning authorities should support their development through their policies and decisions. Mixed tenure sites can include a mixture of ownership and rental tenures, including rented affordable housing and build to rent, as well as housing designed for specific groups such as older people’s housing and student accommodation, and plots sold for custom or self-build.”

Regarding affordable housing, it amends the definition of affordable housing in the NPPF’s glossary and reduces prescriptiveness around affordable housing in most of England. It does this by removing reference to fixed percentages, but it requires needs assessments to consider the need for social rent and planning policies to specify a minimum proportion of social rent homes. However, there will be percentage targets for affordable housing on land released from the Green Belt for residential development.

Funding for affordable housing has been boosted under the new Government. The Autumn Budget introduced:

- A £500m increase (19%) in the Affordable Homes Programme budget in 2025-26;

- Full retention of Right to Buy receipts from November 2024 and discounts to be reduced to pre-2012 cash levels and held there (there will be an update on this announced to Parliament by end of 2026-27).

These measures could result in greater local authority provision of social rented housing.

There will also be £3bn of loan guarantees to small- and medium-sized developers and Build to Rent.

Further investment in housing for at least the whole of the Parliament will be announced in or by the Spending Review 2025. This will cover all tenures but will focus on social rented.

The *English Devolution White Paper* promises greater control over affordable housing for Strategic Authorities:

- Established Mayoral Strategic Authorities will have “the ability to steer and monitor Homes England’s progress in delivering on objectives agreed through their Strategic Place Partnerships, and set out in their wider plans, and to escalate any issues to ministers” and “set the strategic direction of any future affordable homes programme”. In this way, they will be able “to set the strategic direction of any future affordable housing programme in their area, including shaping the tenure mix and identifying priority sites for housing development to be supported by grant”;

- All Mayoral Strategic Authorities will be able to work with Homes England through the Strategic Place Partnerships, subject to a period of joint working on pipeline development and delivery planning;

- Beyond this, "Homes England will move to a more regional and place-based operating model to align its structures and ways of working to the government's devolution agenda. Homes England will also work with Foundation Strategic Authorities on a targeted basis to develop a shared development pipeline and joint action plan, using a continuous market engagement approach to identify the authorities with capacity for accelerating development";

- All Mayoral Strategic Authorities will be given control of grant funding to support regeneration and housing delivery. Over time, the government is "seeking to move towards full devolution of funds and delivery for affordable housing".

2. The scale of the challenge

As described in Chapter 1, creating sustainable communities is not just about building homes. It also requires jobs for the people living in these homes and premises for these businesses and other employers. And the homes and businesses require a range of supporting infrastructure, which local authorities have a key role in building. In this chapter, we explore the scale of all this construction.

Long-term strategies at a local authority level or strategic level are put together with a knowledge of the number of homes that are expected to be built in the area. We therefore start this chapter by looking at the volume of homes that are needed across England and the tenure mix that is required. We then look at the businesses and, crucially, the infrastructure needed to support them.

2.1 The scale of the need for housing

As described in Chapter 1, the Government has set a mission of building 1.5 million new homes over the five years of the Parliament – an average of 300,000 per year. This is a considerable increase on the 229,942 per year that have been completed over the last three years.

The revised NPPF will include a 5% "buffer" on top of the 300,000 figure to account for fluctuations, plus a 20% buffer for those planning authorities that have significantly under-delivered over the last three years. As mentioned in Chapter 1, when the revisions were consulted on, a spreadsheet accompanied the consultation showing annual local housing need for each planning authority, under the revised standard method, including these buffers. The total across England was around 372,000 homes per year. Minor changes were made as a result of the consultation, so the total local housing need now stands at 370,408 homes per year.

The property agent Savills has made an ongoing analysis of the need for housing below market prices/rents. Based on an assumption of the delivery of 373,000 homes across England each year, in its most recent research, Savills found that 187,000 of these would need to be sub-market homes. They have analysed this by planning authority and found that the current shortfall in affordable housing varies widely across the country, in a very patchy way. In a few authorities, mainly in the West Midlands and North West, affordable homes are already being delivered at or close to the required rate. In others, spread across England but more commonly in London and surrounds, the South West and the north of East Anglia, delivery is currently at less than 20% of the required rate.

They have also analysed how the need for sub-market housing is distributed by tenure. Again, this varies across the country. They say that "in London and much of the South, housing need is best met by prioritising social rented homes as the biggest discount to market pricing is required in these areas", though "Other tenures will still have a role to play alongside social rented supply, particularly when supporting scheme viability".

However, “In other regions, the mix of tenures is likely to be more varied, with a greater range of intermediate and AHO tenures as part of the supply solution”.

Across England as a whole, they find that 43% of the need for sub-market housing is for social rented homes, 26% for other affordable rent, and 31% for affordable home ownership. This means that they are estimating that around 80,000 additional social rented homes are needed per year.

The cost of constructing social rented homes ranges widely between regions, as can be seen from a 2024 report by Cebr for Shelter and the NHF, *The economic impact of building social housing*. Updating the figures in that report to 2024 prices, the cost ranges from around £267,000 in the East Midlands to around £519,000 in London[2]. According to a 2019 report by the National Housing Federation (NHF), other forms of affordable housing cost typically cost slightly less on average, at least outside London (around 14% less), due to lower need for them in the high cost areas. Building housing for shared ownership costs roughly the same to build as that for social rent.

In recent decades, council housing has been a small part of the mix of new build. This may change, as a result of the policy changes described above in Section 1.3. However, new council housing is funded through the Housing Revenue Account (HRA) regime. The operation of this account and its associated capital spend is separate from the collection of local taxes and spend on non-HRA assets, and is outside the scope of this report.

Local authorities do, though, also get involved as partners in schemes which involve housing construction. (Indeed, in our case study in Section 4.5, we will see how Newcastle City Council has been involved as a partner in a regeneration programme which has included the construction of student accommodation.)

More centrally to this report, we will see in the next section that the volume of housing growth is a key consideration in councils’ strategic planning, in particular in mapping out local and sub-regional infrastructure needs.

2.2 Business premises and infrastructure

With all of these new homes, the people living in them will need local businesses to supply them with jobs, goods and services, and supporting infrastructure. Some of this infrastructure will be national-level infrastructure, overseen by the Government and its agencies. For the sub-national infrastructure we are concerned with in this report, and for business growth, insights can be gained from Strategic Infrastructure Plans, Infrastructure Delivery Plans and similar documents.

Many counties and sub-regions of England have developed long-term plans for their infrastructure needs. These are often called “Strategic Infrastructure Plans”, but can

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[2] These figures are calculated by taking the figures from the Cebr report and inflating these to 2024 prices, using construction output prices for housing.

have other titles. Several of them have been put together by the company Aecom. TRL Insight is aware of the following examples:

- Cumbria Infrastructure Plan
- Greater Lincolnshire Strategic Infrastructure Delivery Plan
- Oxfordshire Infrastructure Strategy
- Kent and Medway Growth and Infrastructure Framework
- Hertfordshire Infrastructure & Funding Prospectus 2018-2031
- Staffordshire & Stoke-on-Trent Strategic Infrastructure Plan 2018-2038
- Norfolk Strategic Infrastructure Delivery Plan 2022

Typically, these will forecast the need for new housing, population growth and job creation over a fixed period. They will then assess the infrastructure that will be needed to support that growth, such as:

- Transport (roads, rail, public transport, active modes)
- Education (early years, primary, secondary, further, higher)
- Healthcare (primary, hospitals, mental)
- Social care/services
- Libraries, art and culture
- Community and youth
- Parks and recreation
- Sports (indoor and outdoor)
- Green/natural infrastructure
- Utilities and communications (electricity, gas, water supply, sewerage, broadband)
- Waste
- Flooding and drainage
- Emergency services

They provide maps of the main sites for new housing and job creation, transport links and planned transport projects, and planned utilities projects (Figure 2 below). And they calculate the funding required for all the infrastructure improvements – and state how much of this has been identified and how much has yet to be found (Figure 3 below).

Figure 2 - key strategic sites for Staffordshire and Stoke-on-Trent and surrounding local authorities (from Staffordshire & Stoke-on-Trent Strategic Infrastructure Plan 2018-2038, Aecom)

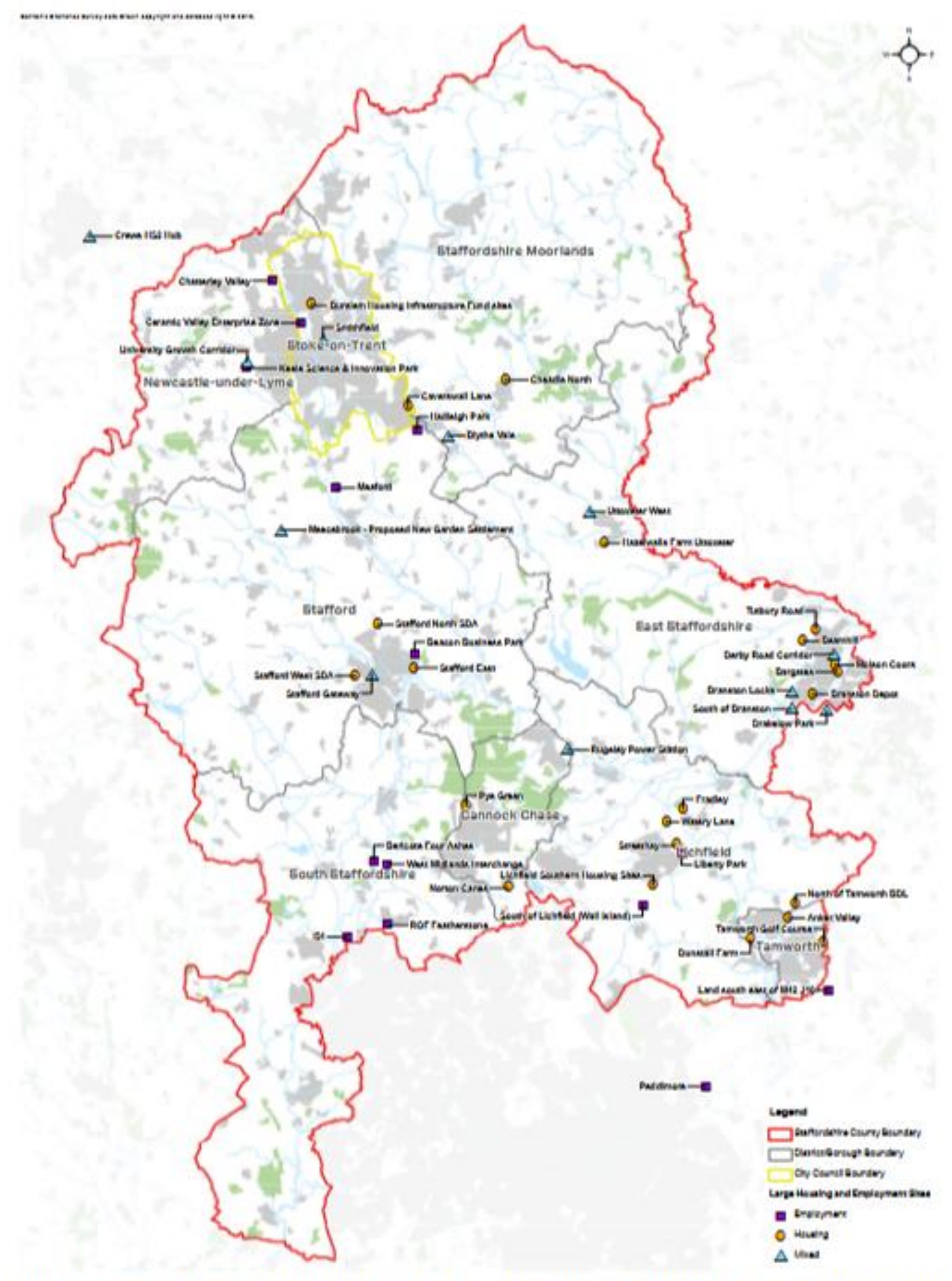


Figure 3 - Summary of infrastructure project costs and funding gaps (from Staffordshire & Stoke-on-Trent Strategic Infrastructure Plan 2018-2038, Aecom)

STAFFORDSHIRE & STOKE-ON-TRENT

THE PLAN IDENTIFIES THE FOLLOWING HEADLINES BETWEEN 2018 & 2038:

86,772
homes planned

62,223
new people (+ 5.5%)
based on ONS 2014 forecast

103,830
new jobs (+21%)

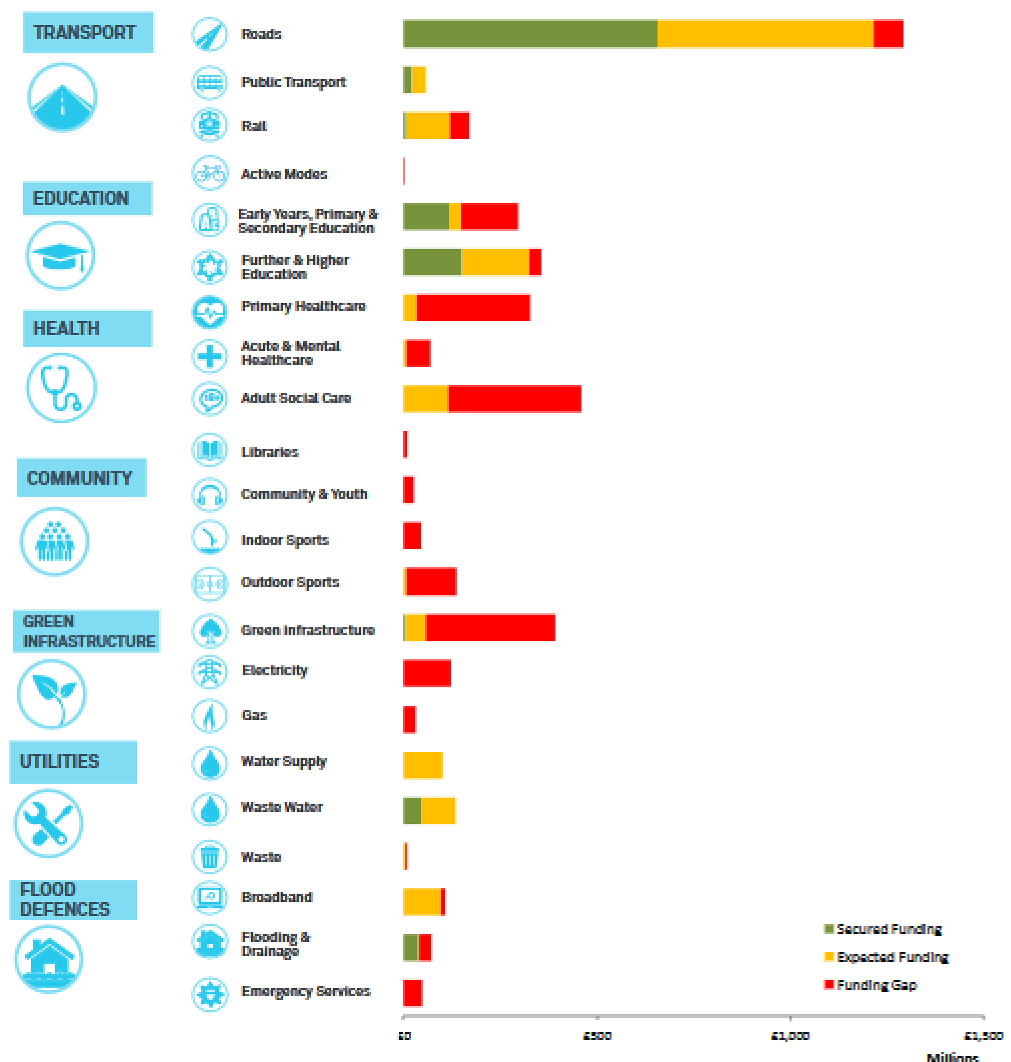
Total Infrastructure Costs: **£4,270,730,000**

Total Secured Funding: **£1,044,580,000**

Total Expected Funding: **£1,803,260,000**

Total Funding Gap: **£1,803,260,000**

% of Infrastructure Funded: **58%**



In addition, planning authorities set out their infrastructure needs in an Infrastructure Delivery Plan (IDP). Some planning authorities are full ceremonial/traditional counties. Those of substantial size for which we have located IDPs are:

- County Durham
- Herefordshire
- Isle of Wight
- Northumberland

These generally contain much of the same information as the Strategic Infrastructure Plans listed above.

The date below shows the cost of additional infrastructure per additional home and per head of population growth, for each of the Aecom reports (as these have a largely consistent format and presentation of all the required figures).

Table 1 - Key information in Aecom Strategic Infrastructure Plans

Date of publication/data capture	Geography covered	Period covered	Cost of new infrastructure per new home	Cost of new infrastructure per head of population growth
2017	Oxfordshire	2016-2040	£67,611	£31,273
2018	Kent & Medway	2011-2031	£91,693	£41,323
2018	Hertfordshire	2018-2031	£68,250	£53,081
2020	Staffordshire & Stoke-on-Trent	2018-2038	£49,209	£68,624

In mid-2024 prices, this averages at £97,320 of infrastructure construction per dwelling[3]. If this were replicated across England, the infrastructure needed to support the 1.5 million homes targeted would be £146bn; that is, £29bn per year of the Parliament.

The proportions of infrastructure spend on each type of infrastructure are shown on page 12 of *Improving infrastructure funding and delivery*.

However, infrastructure needs vary widely across England. *Improving infrastructure funding and delivery* explains how:

- Connection to infrastructure may be more costly in some areas due to their geography – this “includes physical connections such as water and sewerage, energy, communications and digital networks, but also transport connectivity to local amenities”;

[3] We have inflated prices using construction output prices for new infrastructure.

- A particular example of this is sparse shire areas – spend on roads per and parking is higher per dwelling than in urban areas. School rolls are often smaller too, requiring a greater spend per pupil;
- "Some areas have significant port infrastructure to maintain, while others have major bridge links";
- "Retirement areas will generally need less investment in schools, but more in health and social care";
- More new infrastructure will be required where higher levels of development are planned. This often occurs in areas with stronger prospects for population growth and economic growth. Conversely, coastal communities, areas with large floodplains, and areas which are largely covered by floodplains, Areas of Outstanding Natural Beauty or sites of Special Scientific Interest (or indeed, National Parks) may be very limited in their potential for growth;
- Larger sites tend to be more self-contained for more aspects of infrastructure.

To get a feel for the scale of infrastructure need at the local authority level, let us consider West Northamptonshire, a medium-sized council in central England. It is a unitary council which was created in 2021, with a population in 2022 estimated to be 429,013. It has an IDP, which was first published in 2011. The 2020 update estimates the cost of infrastructure across the area up to 2029 under six categories: transport, primary health care, education, community and leisure, open space and green infrastructure, and utilities. (Note, this is a more limited set than considered in the reports in Table 1 above.) The total cost across these six categories is £740m – 20% more than the council's entire spend on services in 2023-24; nearly two and a half times its council tax requirement. And this is on the basis of providing 2,107 homes per year from 2025/26 to 2028/29 – 16% lower than its indicative local housing need of 2,515 homes under the new standard method.

Not all of this infrastructure will be funded by the council – for example, the costs of providing utilities (£101m) and primary health care (£7m) will be borne by other providers. Nonetheless, the comparison with the council's budgeting figures does provide a sense of scale.

As well as the infrastructure, councils will be involved in developing the high streets and town centres the new residents are using, and in development control for business premises away from these areas, from corner stores to retail parks. The businesses in all of these areas will provide employment for local residents. As *Kickstarting Economic Growth* points out,

> *"Labour markets are predominantly local; people tend to work close to where they live. In the 2021 census, of the people who travelled to work, just under*

half the UK resident population in employment, almost 46%, travelled less than 10 kilometres to work, and a further 31% of the population predominantly worked at home".

The Aecom reports state the number of additional jobs that are expected in each of the four sub-regions. Across these areas, these total 419,780 jobs, for 472,402 additional dwellings.

Expenditure on business construction is on a par with that on housing. For every pound spent on housing (both private and public) over the five calendar years 2019 to 2023, 69p was spend on private commercial and industrial construction.

Despite the money being spent on it, very little business floor space was created over this period. In 2023, floorspace was used in calculating the rateable values of 80% of properties on local valuation lists. For these properties, there was 21.59m^2 of floorspace per dwelling on councils' valuation lists. However, over the five years up to 2023, only 1.30m^2 of business floorspace was added per new dwelling[4]. This relative lack of physical build may partly be because it includes the period of the COVID-19 pandemic, which is known to have slowed build considerably. In addition, flexible working means that less work is done from physical business premises, a trend which is likely to continue.

To give a sense of how the number of properties and value of properties break down between business sectors, Stock of Property data released by the VOA is useful. This shows that, as of 31 March 2024, 24% of properties were in the retail sector (21% of rateable value), 20% were in office properties (23% of RV), 26% in industry (27% of RV) and 29% in other (29% of RV). This balance could well change over coming years, given the many trends discussed above in Section 1.2.

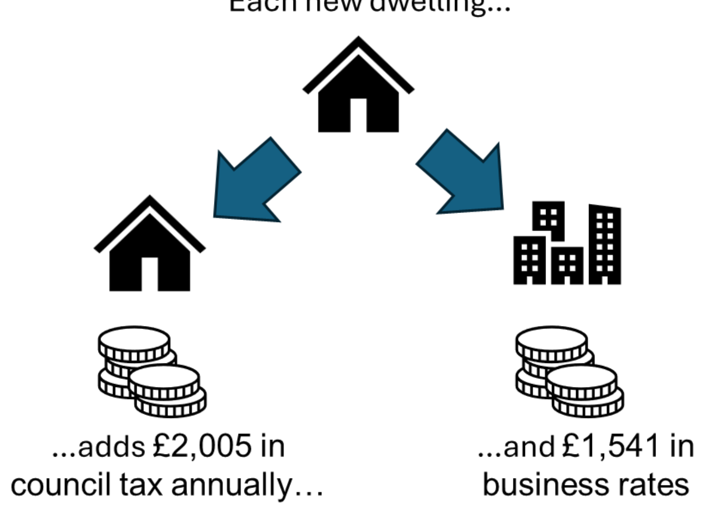
[4] In calculating this, we have used floorspace figures for March 2018 and March 2023 and dwelling numbers for October 2018 and October 2023.

3. Return on investment

Having looked in the last chapter at the scale of investment needed to create sustainable communities, we turn in this chapter to how this investment may be recouped over time. We start with the return to local authorities, mainly from council tax and business rates. In doing this, we focus on local taxes as they are now. (Changes to the local tax regime that might stimulate greater local economic development and improve returns are considered in Chapter 6.) After that, we consider the returns to central government, through increased tax receipts and savings on current budgets. We finish the chapter by looking at what determines the profit margins for developers.

3.1 Potential return to local authorities

For each new dwelling in England in the five years up to September 2024, 0.92 on average was added to the council tax base (after allowance for council tax support) – with properties in higher council tax bands adding more than those in lower ones. As of 2024-25, for each unit of council tax base, councils in England are receiving £2,171 of council tax. Thus each new dwelling is adding £2,005 on average to council tax income annually, in 2024-25 prices[5].



For each new dwelling in England in the last five years, £3,827 was added to the total rateable value. As of 2024-25, for each pound of rateable value, councils in England are forecast to receive 40p of business rates (or, more accurately, this is the amount which forecast to be owed by bill payers, which may differ from the amount collected). Thus, the hereditaments which accompany each new dwelling are adding £1,541 to business rates income annually, in 2024-25 prices[6].

[5] The council tax per unit of council tax base quoted is the Average Band D council tax including adult social care and parish precepts.
[6] As above, using dwellings from council tax base data and rateable value from NNDR1 for the relevant years.

Adding to council tax base does not ensure that councils receive extra income in perpetuity in strict proportion to this (even after allowing for council tax support). This is because of the equalisation for council tax described in Section 4.4 and its complex interplay with New Homes Bonus.

Business rates yield may also not rise on the same trajectory, for several reasons. Firstly, rateable value may not remain in the same proportion to the number of dwellings, due to the "casualisation" of business: trends such as the rise of online retail, working from home and the gig economy. Secondly, there are different multipliers for different properties and a whole series of reliefs and discounts, some of which are mandatory (nationally imposed) and some of which are at the local authority's discretion. Thirdly, there are two types of equalisation contained in the Business Rate Retention system, as described in Section 4.4.

However, these figures give a sense of the scale of what *could* be raised from these taxes.

The business rates bill before reliefs for a hereditament is calculated by applying the appropriate multiplier to the hereditament's rateable value. In most years, this multiplier increases with CPI, so that there is a built-in measure of inflation in the bill. There is also, to some extent, a natural measure of inflation associated with council tax: the bill before discounts for a home is the tax rate for the home's tax band. This tax rate may increase each year up to a maximum, specified by the Government, which can only be exceeded if agreed in a local referendum. Most councils increase tax rates by this limit each year.

To obtain a very simple illustration of future tax yields, we could use these percentage increases – in the multipliers for business rates and in the tax rates for council tax – to deflate future yields. With those measures of inflation, each new dwelling in England will add £2,005 to council tax income annually, in 2024-25 prices, as long as these dwellings remain standing. Thus, over 10 years, councils would receive an uplift to council tax of £20,050 per home; over 20 years, £40,100 per home, and over 30 years, £60,150, using Band D rates as our measure of inflation. The growth in rateable value which accompanies each new dwelling will add £1,541 to business rates income annually, in 2024-25 prices, if new business premises and improvements continue to be added in the same ratio. Thus over 10 years, councils would receive an uplift to business rates of £15,410 per home; over 20 years, £30,820 per home, and over 30 years, £46,230, using the business rates multipliers as our measure of inflation.

There will also be an uplift to other sources of local authority income, such as parking charges, planning fees and rent for council-owned community facilities. However, such payments are contributions to the costs of providing the associated services and are outside the scope of this report.

Finally, building homes for social rent will provide savings to local authorities resulting from reduced homelessness. *The economic impact of building social housing* estimates that a programme of building 90,000 social rented homes (slightly

higher than the 80,000 that Savills have estimated that England needs every year, as described in Section 2.1) would save councils £4.5 billion over 30 years. That is, a saving of £50,000 per new home over 30 years.

3.2 Return to the Exchequer

Two sources of data for the estimated returns to the Government are:

- For social housing, *The economic impact of building social housing*.
- For housing in general, a 2024 report by Lichfields for the Home Builders Federation, *The Economic Footprint of Home Building in England and Wales*.

The Lichfields report looks at the taxes paid by home builders and through Stamp Duty Land Tax in 2022/23, when 212,570 homes were built in England (from official statistics):

- Housebuilders contributed £3.2bn in England through PAYE income tax and employee-related National Insurance – that is, around £14,920 per home;
- Housebuilders incurred an estimated £1.4bn of corporation tax across England – that is, around £6,640 per home;
- Housebuilders generated an estimated £525m of Stamp Duty through sales of new build homes in England – that is, around £2,470 per home.

These total £5.1bn, or around £24,000 per home.

On top of this, there will be additional taxes from the supply chains for the developers and resulting from spend by the employees in the wider economy. The Cebr report finds that building 90,000 social homes would result in £10.4bn Gross Value Added (GVA) directly from construction, but a larger £17.0bn from indirect and induced effects. If this same ratio is applied to the figures above, this would suggest an extra £8.3bn from these effects, or around £39,300 per home, for the Exchequer.

The Lichfields report also suggests that around £1.7bn may have been spend by residents of new homes on furnishing it and decorating it to make it “feel like home”, based on a survey that found a spend of £7,000 per new home. If all of this spend attracts VAT at 20%, this is worth £340m to the Treasury, or £1,400 per home.

For social homes, there are additional returns to the Exchequer.

Firstly, there is the employment involved in managing the homes. Cebr found that this would generate £8.1bn in GVA directly, with an extra £12.7bn from indirect and induced effects.

Then there are the social impacts of providing people with homes:

- Income tax and national insurance contributions resulting from higher employment: £3.8 billion from 90,000 homes, or around £42,200 per home;
- Reduction in Universal Credit claims: £3.3 billion, or around £36,700 per home;
- Reduction in NHS healthcare costs: £5.2 billion, or around £57,800 per home;
- Savings from reduced costs of crime: £3.1 billion (of which £0.7bn is a saving on police call-outs with no arrest, while £2.4bn is savings on costs relating to being victims of crime[7]), or around £34,400 per home;
- Savings on long-term effects of disruption to children's schooling: £2.7 billion, or around £30,000 per home.

Naturally, if new business premises are built, there will also be returns to the Exchequer from taxes on developers, their supply chains, purchases by their employees and building sales. If these allow new businesses to be set up or expanded, this will result in extra employment, also bringing in taxes.

3.3 Return to developers

Developers purchase land, build on it, and sell the resulting development; the return to them is the profit on the project. A sense of this can be gained from *Improving infrastructure funding and delivery* (2023). This takes the figures published by a unitary authority in the north-east of England and applies them to a hypothetical development of 80 two-storey houses on previously developed land[8]. On this basis, the report estimates that:

- Land value, at the lowest value the landowner would accept, accounts for around 5% of the sale value;
- Around 64% of the market sale value consists of construction costs services, financing and contingencies;
- About 9% consists of the developer's direct contribution to site infrastructure and external costs, such as "'standard' requirements for

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[7] We have split the £3.1bn using figures from the Hyde Group's report, The Value of a Social Tenancy, which the Cebr report uses as base data. Part or all of the £2.4bn may be savings to the victims rather than the Treasury – it is unclear in both of these reports. An analysis providing a breakdown of the costs of crime can be found in *The economic and social costs of crime* (Home Office, 2018).
[8] It is assumed that this land does not require such things as remediation works, decontamination or flood mitigation works.

roadways, drainage, all services, parking, footpaths, landscaping and any other typical construction costs that falls outside the curtilage of the dwellings";

- 3% is "'net uplift', available for contributing to [other] local authority infrastructure costs" (such as off-site costs); leaving

- A profit of around 18% of the market value.

For a house sold in November 2023 at the average price for new build in England, £422,000, this would imply a profit of around £76,000.

It may be questioned whether these percentages based on just one authority in the North-East are typical of England as a whole. However, the London Borough of Havering carried out a viability assessment for its Community Infrastructure Levy (CIL) in 2018. This provides evidence of the same order of profit margin, stating "Typically developers and banks are targeting around 17-20% profit on value of the private housing element".

Furthermore, and again in keeping with *Improving infrastructure funding and delivery*, it states:

> *"While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. While profit levels were typically up to around 15% of completed development value at the peak of the market in 2007, banks currently require schemes to show a higher profit to reflect the current risk".*

Improving infrastructure funding and delivery points out that for affordable housing, developers know at the start that these will be transferred in bulk at point of delivery. Consequently, these carry a lower profit margin of around six per cent, leaving more available for infrastructure.

We discuss how such risk may be managed down in Section 5.1.

4. Capturing the uplift from existing local taxes

This chapter is the most extensive one in this report and in some ways is the centrepiece of it. Having seen the importance of local tax uplifts to councils, and therefore to their provision of infrastructure, we look at how this return on investment can be captured.

We start by explaining the need for borrowing for investment and the sources of debt funding in the first two sections.

We then examine the tension between retaining uplifts and equalising between authorities for differing ability to raise local taxes. Section 4.3 provides a historical overview of evolution of the funding system before 2013, while Section 4.4 looks at how the final state of it was incorporated into a new system of Business Rate Retention, while an "incentive"[9] for house building was provided in the New Homes Bonus. We see how the opacity and complexity of funding system means that councils cannot be certain that their tax uplifts will not be "equalised away", particularly in the years that the Government decides to "reset" tariffs and top-ups.

However, there are exceptions to this, where various structures guarantee the long-term retention of tax uplifts. This allows local authorities to borrow against forecast future uplifts – a mechanism known as Tax Increment Financing. This is covered in Section 4.5, which contains a case study of the Accelerated Development Zone in Newcastle Upon Tyne.

In the final section, we look at how the system can be reformed to provide sufficient certainty of retaining uplifts, thereby facilitating greater investment in development.

4.1 Why capturing the uplift is necessary – the need for borrowing

Improving infrastructure funding and delivery (2023) found that in 2020/21, 41% of funding for English local authority capital expenditure came from borrowing and credit – ten times as much as from developer and leaseholder contributions. A further 29 per cent was from grants from the government and its agencies. While there is scope to increase developer contributions, as we describe in Section 5.1, this can only ever fund a relatively small proportion of local capital expenditure.

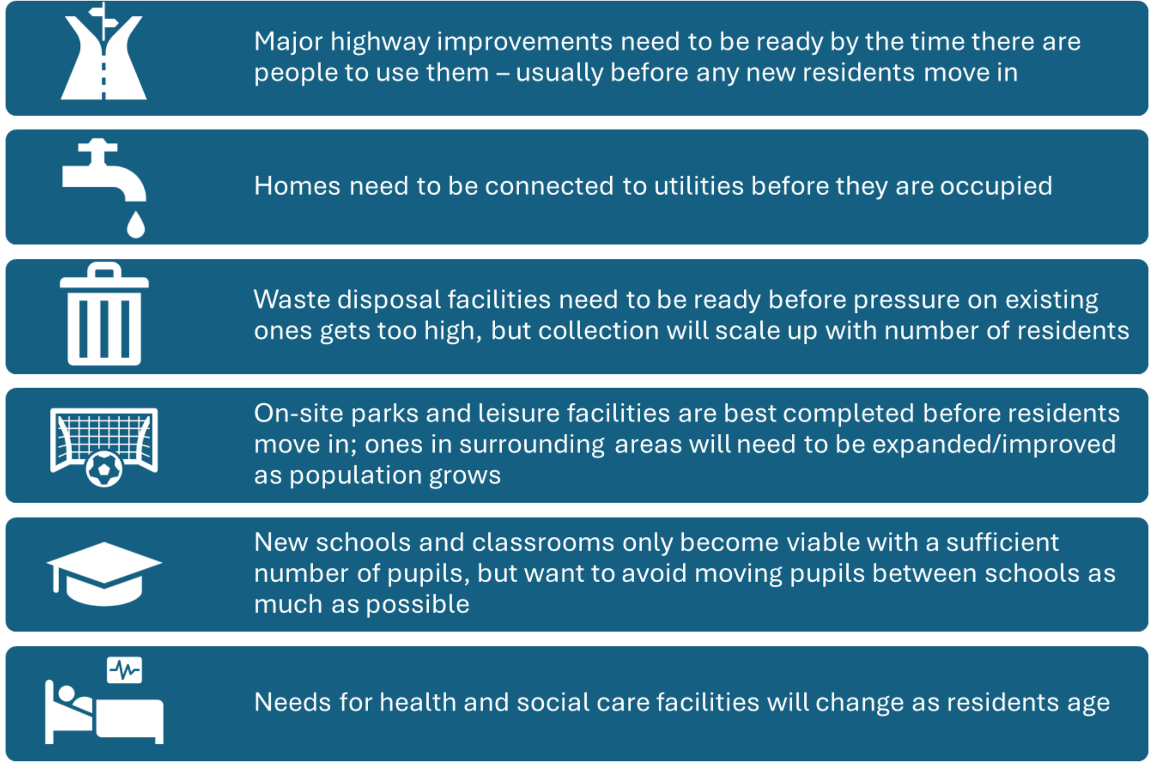
[9] In these two sections, we use frequently use the word "incentive" and "reward"; our use of these words is intended to convey the Government's perspective on these matters. However, the view of TRL Insight is very different. We view these words as patronising to local authorities and stemming from a "Whitehall knows best" attitude. Local authorities do not need to be "incentivised" to make good long-term decisions in the best interests of their residents; this is something they desperately want to do. They need to be allowed the financial freedom to take the best decisions, and to have "perverse incentives" within the system removed.

Furthermore, there is a timing issue for infrastructure funding. As *Improving infrastructure funding and delivery* puts it,

> *"…facilities need to be available at appropriate points in the lifecycle of a development. This requires funding to be available at specific times, including significant funding prior to housebuilding commencing. But developer contributions do not provide up-front funding for infrastructure".*

The 2020 MHCLG policy paper *Planning for the Future* recognised and committed to a principle of "infrastructure first". A more nuanced description of when various types of infrastructure are needed is given in an infographic in *Improving infrastructure funding and delivery*, reproduced below:

Figure 4 - Key delivery times for facilities



However, the main two types of developer contribution, Section 106 and the Community Infrastructure Levy (CIL), do not provide funding upfront:

- Section 106 payments are made at agreed 'trigger points,' based on dwellings completed.
- CIL payments are by instalments after commencement on site.

Borrowing/credit arrangements therefore necessary to cover the huge capital outlay outlined in Chapter 2, with much of this coming from local authority budgets.

4.2 How councils borrow for capital expenditure

Most local authority debt funding is provided in the form of loans from the Public Works Loan Board (PWLB), part of the Treasury's Debt Management Office. It on-lends money raised by the Treasury through issuing gilts (government bonds). However, there are many other sources of upfront capital funding that local authorities can access. Many of these are described in *Improving infrastructure funding and delivery*. These include:

- Capital receipts and capital grants;
- Loans from banks or building societies; (note that Insights North East points out that some EU countries have Regional Development Banks and suggests setting them up in England);
- The National Wealth Fund. This was launched as the UK Infrastructure Bank in 2021. It could then invest across five sectors. Following a commitment by the new Government, it has now been reshaped as the National Wealth Fund and is able to invest more broadly, with a purpose of driving growth across the UK and the transition to net zero. Loans to local authorities are at a lower rate than from PWLB, for up to 50 years;
- Investment by public or private sector partners, including through a joint venture or public-private partnership or foreign direct investment (FDI – the interest of investors in local infrastructure is described in a 2022 report by EY and the County Councils Network, Global Britain, Global Counties);
- Pension funds – including local government pension funds, but also the wider sector, including foreign pension funds;
- Bonds – these may be issued directly by the authority or through the new UK Municipal Bonds Agency;
- Peer-to-peer lenders and other innovative finance – such as the partnerships with Abundance Investment mentioned in Chapter 1; this can include community investment schemes such as West Berkshire's Community Municipal Investment.

Local authorities borrow under the Prudential System, introduced in 2003. Councils must follow CIPFA's Prudential Code to ensure that their finances are sustainable and that credit is affordable. The system has allowed far greater autonomy than the previous system of credit approvals, while remaining robust enough to ensure most borrowing has remained prudent, and flexible enough to adapt to new situations of concern.

As *Improving infrastructure funding and delivery* puts it, "…councils can only borrow when they are confident of repaying both principal and interest or of receiving payment". This can be a problem for developments: 'Developments carry significant

risk of timely and full delivery. As one unitary council put it to us, “spending money you’re not guaranteed to get is an issue”’.

Improving infrastructure funding and delivery discusses two types of risk to the financing of developments, which it refers to as ‘project risk’ and ‘political risk’.

By ‘project risk’, the report means the risk of a development project running over budget or behind schedule. Costs can be pushed up if problems are encountered, such as an unexpected need for remediation work or new demands are added to the project requirements. They can also be pushed up by inflation, either for certain components or labour, or by general economic inflation. If there are delays to a development, debt will be accruing additional interest before repayments are complete.

This is the main type of risk which is factored into developer profit margins, so we discuss how to manage it down in Section 5.1. However, it will have an impact on infrastructure expenditure for local authorities, and whether this can be met from the income councils receive as a result of the developments, such as uplifts in local taxes and developer contributions. Even if the ideas discussed in Section 5.1 manage to reduce project risk significantly, some will remain. *Improving infrastructure funding and delivery* recommends that:

> *“Mechanisms for further managing the risks inherent in development should be explored with the government, including a mutual insurance scheme and further guarantees for investments made in infrastructure. This needs to cater for the current economic climate with large and unpredictable price rises”.*

By ‘political risk’, the report means the risk of returns to the investment not materialising due to changes to the local government finance system, arising from new Government policies or changes to existing policy positions. These are covered in the remainder of this chapter.

4.3 Equalisation and “reward” – the system before 2013

We would like to understand what return on capital investment councils would actually receive if a development proceeded smoothly according to plan, sticking to time and to budget. In Section 3.1, we got a sense of how much could theoretically be raised from council tax and business rates. However, the current system seeks to equalise between councils for differing ability to raise both of these local taxes (that is, to redistribute funding between them). The way in which it does so is messy and complex. Consequently, councils are not assured of keeping all of the uplift from local taxes resulting from developments.

This equalisation is carried out within the system of business rate retention, which has essentially been unchanged since it was introduced in 2013. Many of the parameters of the system were based on features of the previous system, so for a proper understanding of the current system, we need to look back before 2013 – that is what we do in this section.

Development of the system

Prior to 1990, dating back as far as 1967, there was a single tax for both domestic and non-domestic properties in England. The tax was based on a valuation of these properties by the national Valuation Office, which would establish a “rateable value” for each property, based on a notional rental value. Each billing authority then applied a “poundage” to this value: an amount that they would levy per pound of the property’s rateable value.

In 1990, domestic and non-domestic properties were separated. The locally-determined “poundage” for non-domestic properties (business premises) was replaced by a single multiplier for the whole of England, providing a “Uniform Business Rate”. Since then, a lower multiplier for small businesses has also been introduced.

Domestic rates were replaced by the short-lived Community Charge (colloquially known as the Poll Tax), and then in 1993 by council tax.

Councils weren’t expected to survive on income from local property taxes alone. In particular, some parts of England had much lower tax bases than others, and these were often the ones with the greatest spending needs. Thus, as well as grants for specific purposes, councils received a Rate Support Grant from central government, which was later replaced by Revenue Support Grant.

The method of calculating allocations of this grant changed many times over the years. It took into account councils’ differing ability to raise tax and, to some extent, differing expenditure needs.

The improving capabilities of computers for running analysis of councils’ expenditure allowed the assessment of needs to become gradually more sophisticated. As more was done, more came to be expected. From 1990/91 to 2002/03, the grant was calculated using “Standard Spending Assessments” – so called, because they were supposed to represent an assessment of the cost of providing services at a particular standard across England. Government policy started to assume that they did this. This resulted in vigorous complaints from the local government sector about the inaccuracy of the needs assessment and abuse of the resulting figures.

The system was therefore reshaped. Formula Spending Shares (FSS) were introduced in 2003/04. These were no longer viewed by Government as an expectation of a particular level of service. Instead, they were:

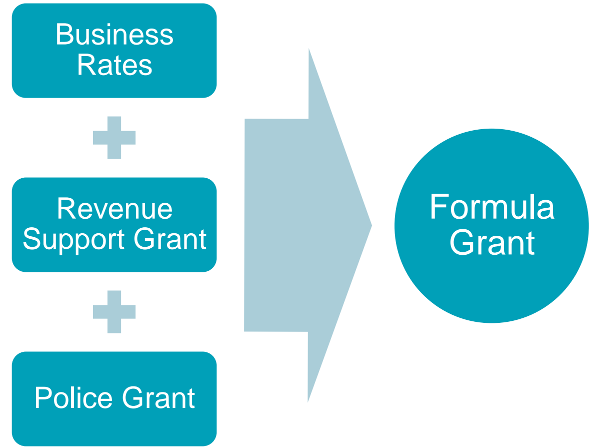
- acknowledged to be a sophisticated but imperfect assessment of the relative needs of local authorities, beyond what could be raised if council tax were set at a standard rate across the country,
- used purely to distribute funding.

Formula Grant

A further change took place in 2006/07, when the 'four-block model' was introduced. This system of apportioning funding, called Formula Grant, was used up until 2012/13, so we shall go into it in more detail.

The funding it apportioned was a combination of the yield from the uniform business rate ("National Non-Domestic Rates" or NNDR), Revenue Support Grant, and Police Grant supplied from the Home Office's resource (revenue) budget.

Figure 5- funding for Formula Grant



It still contained an assessment of relative needs. This was done using Relative Needs Formulae, much as in the previous FSS system. By 2012/13, there was a Relative Needs Formula (RNF) for each of the following:

- Children's services,
- Adult personal social services,
- Highways maintenance,
- Concessionary travel,
- Continuing Environment Agency levies,
- County-level environmental, protective and cultural services,
- Police services,
- Fire services,
- District-level environmental, protective and cultural services,
- Coast protection,

- Fixed costs,
- Mixed-tier environmental, protective and cultural services,
- Capital finance support.

There was also a deduction for ability to raise council tax. This used projections for the taxbase for each local authority area, as follows. Settlements were published for a period of two or three years. The taxbase growth over the two years prior to the start of the settlement period was averaged, and this growth rate was projected forward over the two or three years of the settlement period. The resulting taxbase figures were then split between the tiers of authority for that area (upper-tier, lower-tier, police and fire) in fixed proportions. The deduction for each authority for each year of the settlement was in proportion to its share of the projected taxbase – in effect, using a fixed Band D council tax rate for the whole country. This was called 'resource equalisation'.

However, both the RNFs and the resource equalisation were now subject to thresholds, as shown in Figure 6 below.

There was an RNF threshold for each of the four tiers of local authority – this was the minimum RNF per head of population for any authority in that tier. Likewise, there was a resource equalisation threshold for each tier – the minimum (share of) taxbase per head of population for any authority in that tier.

For each authority, the amount beyond the threshold went through to the next stage of the calculation unscathed, whereas the amount that was common to all authorities of the respective tier was scaled.

This scaling provided the third block, the 'central allocation'. This was calculated by adding up the scaled amounts below the RNF thresholds, then taking off the sum of the scaled amounts below the resource thresholds, then finally re-multiplying by the authority's population.

Adding the needs amount and the resource amount beyond the thresholds to this rescaled 'central allocation' (where the resource amount is negative, meaning a deduction) gave the grant before damping.

Figure 6 - Thresholds and central allocation

The final ‘block’ was a damping calculation, explained below.

There was little logic to introducing these thresholds and the scaling in the central allocation. There was a widespread view in local government that they were only introduced to make the system *less* transparent, for the following reason. The complaints which had been rife at the time of SSAs that the needs assessment system was unfair had never completely gone away. The Government perhaps thought that if they could further break the link between needs and grant, so that local authorities could not understand how their final amount was calculated, it might end a source of complaint. The only real consequence was to introduce a source of instability; the amounts received by every authority in a tier now depended on the needs data and taxbase of the threshold authority for that tier. Thus if it suddenly built a lot of housing in one year or had a population boom, this could hugely affect the grant before damping of many other authorities. This, naturally, increased complaints about the arbitrary nature of the funding and was roundly condemned – see, for example, LG Futures’ 2017 paper for the Communities and Local Government Committee, *Reforming Local Authority Needs Assessment Paper 2 – Simplifying the Funding Model*.

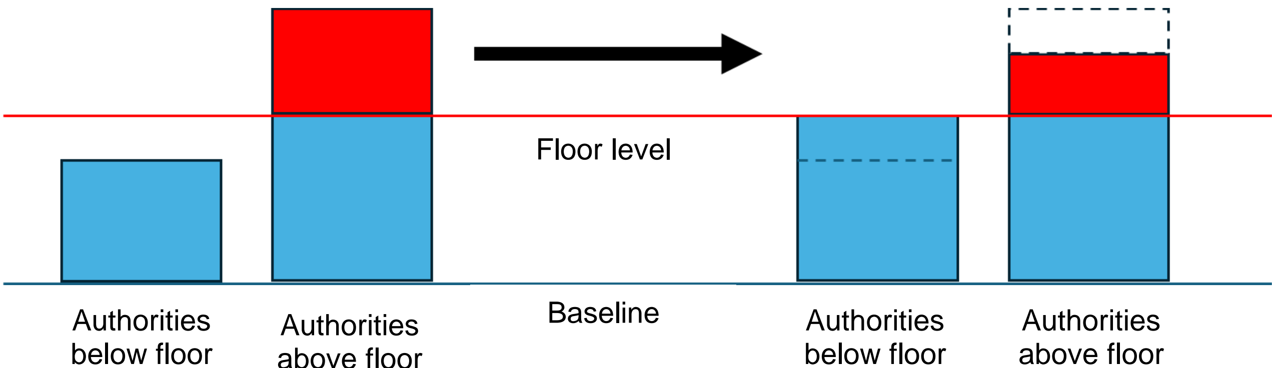
The damping mechanism used in Formula Grant was a system of ‘floors and scaling’. This had replaced a system of ‘floors and ceilings’. We shall describe both of these, because, as we will see, the nature of a transitional mechanism such as these has a crucial bearing on the effectiveness of tax uplifts.

The reason for this mechanism was as follows. The data used in the RNFs was frequently updated. This might be, for example, using the latest population projections. However, it might be something more radical – for example, a formula had used the number of claimants of a particular benefit, which was now being withdrawn or combined with another benefit. In such cases, the formula would need to be modified in some way. This could cause large shifts in funding, so to smooth

the transition from the old grant level to the new one, the damping mechanism was used.

This compared the calculated grant with the final grant paid the previous year. It ensured that every authority received at least a minimum percentage or 'floor level' increase. (To be precise, the comparison was with the previous year's grant adjusted for such things as funding for new duties or other grants being rolled into the funding.) With the 'floors and ceilings' mechanism, it did this by cutting back the grant from those authorities receiving more than a maximum increase over the previous year, and redistributing the money from the ceiling authorities to the floor ones. With the 'floors and scaling' mechanism, *all* the authorities that received more in 'grant before damping' than the minimum percentage had their grant scaled back to cover those below the floor, as shown below.

Figure 7 - Damping using floors and scaling



Local authorities were divided into four 'floor groups' – shire districts, fire authorities, police authorities and authorities with upper tier responsibilities – and within each floor group, the scaling back was by the same percentage.

In the final two years of Formula Grant, the floor level was actually a negative percentage, as the overall grant being distributed was reducing. Also, the system was made yet more complicated, by dividing the damping groups for shire districts and those with upper-tier responsibilities into four bands, each of which had a different floor percentage.

This use of damping was intended to give local authorities stability, to cushion them against big swings in their funding. Inevitably, this came at the price of accuracy of the needs assessment. It particularly kept grant funding higher than relative needs would suggest for authorities whose areas had become more affluent. Rather than grant falling, it would be pushed up at the floor level, year after year. This was criticised by the Public Accounts Committee of the House of Commons, who said:

> *"There is a tension between the extent to which allocations to local bodies can be responsive to current needs, while also minimising short-term volatility in funding. Given that the core shared purpose of formula funding is to base allocations on relative needs, we were surprised by the extent to which stability had been prioritised… we heard that 20% of all funded authorities have received allocations in 2011-12 that are more than 10% distant from*

their calculated needs. One authority, Wokingham, received double its calculated funding needs this year".

Disincentives and 'Incentives'

Patterns of affluence and deprivation across England were very entrenched. The equalisation for needs and differing ability to raise council tax which were contained within the calculation of Revenue Support Grant and Formula Grant allocations provided a means of mitigating this.

On the other hand, it meant that if a council saw housing growth, it would increase its council tax yield, but in the resource equalisation block, more grant would be taken away than had happened previously.

There is therefore a tension between providing more disadvantaged councils with greater funding and councils keeping the uplift from housing growth.

Indeed, the use of taxbase projections meant that an assumption of growth was baked in. This can be seen with an example. Say an authority had the Band D rate which was effectively used in the resource equalisation, and that it had a substantial new development which added 6% to its tax base in 2008-09. Then the growth projections for 2009-10 would assume that the average of this and the previous year's growth would be repeated – i.e. a growth of at least 3%. Similarly, the growth projections for 2010-11 would assume that the average of the growth in 2008-09 and 2009-10 would be repeated – again, at least 3%. Therefore, if the authority failed to grow its tax base by these amounts in either of these years, the resources deduction will exceed the growth. In effect, the authority would be penalised for failing to maintain the growth in an exceptional year – unless it raised its Band D rate.

Note that there are ways that this could have been adapted to allow councils to retain some of the uplift in council tax. The factor applied to the taxbase in the resource equalisation – effectively, a notional Band D rate – could have been lowered. This would have created – or widened – a differential between their council tax Band D rate and the one assumed, and they would have retained the surplus.

Or, as we shall explore in the next section, rather than using projections, the calculation could have used tax base figures from several years *previously*. This would have allowed councils to retain growth for several years before it got recycled to other local authorities.

However, the resource deduction was just one block of the formula grant calculation. The final two blocks – the central allocation, determined by the use of thresholds, and the damping block – made the relationship between council tax uplift and reduction in formula grant far more complicated.

The damping calculation meant that the reduction in grant (when taxbase rose above projections) was vastly different for different authorities. If an authority's assessed needs had declined since the previous year so much that it was already on the 'floor', an increase in taxbase above projections would not cut its Formula Grant

further – so it would retain the uplift in council tax. And authorities could remain on the 'floor' for years.

On the other hand, - an authority subject to 'scaling' would lose Formula Grant – potentially by around the same magnitude as the increase in council tax yield (though only a complicated piece of 'what if' analysis could determine the exact difference). Hence 'scaled authorities' saw little, if any, financial benefit from housing growth.

We thus see that whether some or all local authorities receive a financial benefit from growth depends on:

- What taxbase figures are used in the equalisation for ability to raise local tax: current figures, projections, or historic/lagged data;
- Whether a mechanism to smooth fluctuations in funding between years is applied before or after equalisation for ability to raise local tax;
- If it is applied after, the nature of this mechanism.

Indeed, the new residents would put extra demands on the council for service delivery. This might be funded in part by increases in the needs allocation within Formula Grant, but the grant was only part of a council's funding, so the system assumed that this would not cover the whole increase. There could thus be, in effect, a perverse incentive in the system which discouraged councils from promoting housing growth – if more homes were built within a council's boundaries, and the increased need for services was not fully met by the additional funding through the needs allocation, councils could be left out of pocket.

This disincentive effect was recognised by the *Lyons Inquiry into Local Government* in 2007, which quoted the OECD:

> *"full equalisation removes the incentive to increase jurisdictional tax base by attracting new economic activity ... [as such] full compensation of differences in tax or service capacity may compromise the incentive to expand the tax base and should be avoided"*

Consequently, the Lyons Inquiry and the *Barker Review of Land Use Planning* (2006) recommended introducing an "incentive" for councils to promote housing growth. The Government's response was to bring in the Housing and Planning Delivery Grant (HPDG). Allocations of this grant were consulted on in late 2007 and allocations for 2008/09 were finalised in November 2008. Funding of £100m was put aside in for this year and totals announced for 2009/10 and 2010/11. The totals for the second and third year were later scaled back slightly, resulting in a total pot of £200m in 2010/11.

We shall not go into the details of this incentive here, but they can be found in *Housing and planning delivery grant (HPDG) – Consultation on allocation*

mechanism for year 2 and year 3. In this report, we are particularly interested in the system which began in the following Parliament. However, as explained in the next section, during that Parliament, the principle of a growth "incentive" and the presence of an existing budget for this purpose became important.

4.4 The current methods of equalisation and "reward"

Following the 2010 general election, the Government that came to power was drawn from a coalition of two parties. Its programme was correspondingly drawn from the policies of the two parties, in particular their election manifestos.

New Homes Bonus – the original design

Very quickly, the Government decided to replace HPDG with an improved "incentive" to promote house building, called New Homes Bonus (NHB). The proposal was put out to consultation in late 2010 and the final scheme design was announced in February 2011.

This scheme would pay grant to councils for each new home they built or empty home they brought back into use, for seven years. In the first year, the amount per home was the national average for the council tax band for that home, plus an extra £350 if it was an affordable home. This amount would be paid again for each of the next six years, for each of those homes. If they built additional homes in the later years, these would also attract the grant, again for seven years after they were built or returned to use. This was illustrated with the following diagram:

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Year 1	£	£	£	£	£	£	
Year 2		£	£	£	£	£	£
Year 3			£	£	£	£	£
Year 4				£	£	£	£
Year 5					£	£	£
Year 6						£	£
Year 7							£

The first year's payment was made from the budget that the Department for Communities and Local Government (DCLG) already had for HPDG. After that, the increase in taxbase would generate a saving in the Formula Grant budget – due to the resource equalisation reducing Formula Grant payments. This would cover the increasing amounts that the Government had to pay out in NHB. It would essentially become a revolving fund. The final scheme design said that:

> *"By year six, even at a steady rate of build, we expect it to be over £1bn. In fact, we expect building rates to increase and the grant to be significantly higher by year six. … Those authorities which respond to the incentive and embrace housing growth will reap the benefits".*

The revolving fund was a clever idea and it made sense as a simple mechanism to address a deficiency with Formula Grant.

Note that if it were not for two aspects of formula grant:

- The thresholds/central allocation, and
- The damping being applied *after* the resource deduction

then the same result could have been achieved by freezing the taxbase value used in formula grant for seven years, then allowing it to lag behind actual taxbase by seven years thereafter.

The design did also have flaws:

- Just like council tax, the amount received was far more for higher band properties than lower band ones, when solving the problem of housing shortage would not be addressed primarily by building the most expensive homes.
- There was insufficient certainty of the grant being paid over the long-term to allow borrowing for investment.

This second concern, about the grant's long-term future, proved to be a valid one, when Business Rate Retention was introduced, as we shall explain below.

Business Rate Retention – the system created in 2013

While the financial benefit to local authorities from housing growth was varied, muddled and uncertain, it did not exist at all for housing growth. The parties in the coalition were of the view that since non-domestic rates had been nationalised, councils no longer prioritised the interests of local businesses – the close link between them had been broken.

Indeed, the government took the view that local authorities had become highly dependent on grant funding. This dependence was greater for more deprived authorities. Thus the financial incentives went the wrong way: if an area became more deprived, it received more funding. This reasoning led the government to develop the system of Business Rate Retention. It took several years for all the details to be worked out. With two parties in the coalition and the need to take into account the interests of a variety of local authorities, businesses and public bodies, all within an envelope of increasingly restrained public finances, the eventual system design was messy and complex.

The aim of the system was to give councils a 'financial reward' for growing their business rates base – that is, for uplifts in their business rates. This would provide them with an 'incentive' to promote business growth.

In order for councils to retain growth in business rates, it was necessary to fix a baseline. Therefore, the old system of recalculating Formula Grant for each year was stopped. Instead, funding from central government for one single baseline year, 2013/14, was calculated.

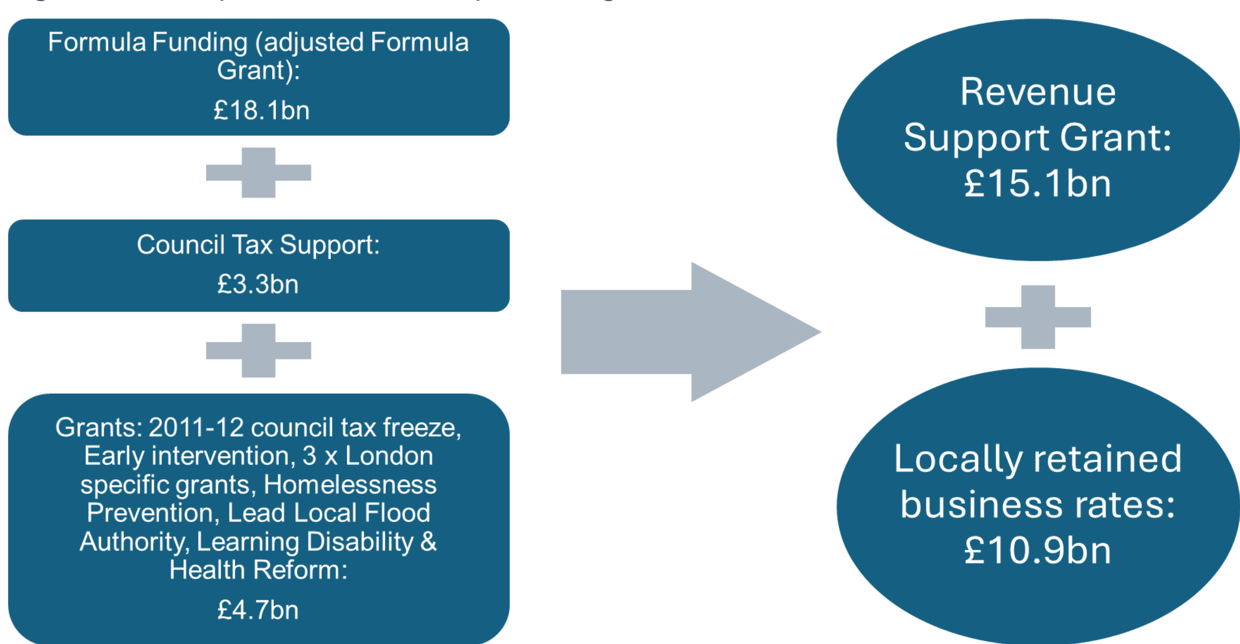
Now, even in the absence of growth, business rates yields would rise in line with the multiplier. This is usually increased with inflation (RPI was used at the time; the default increase is now CPI), but that is the maximum permitted, and the Government occasionally holds it below this, when bill payers are struggling. The figures for the baseline year were therefore going to be increased in line with the multiplier each year; councils would retain a share of any growth in yields beyond this. This would continue for many years, until eventually the system would be ‘reset’, with all the baseline amounts being recalculated.

The aims of ‘rewarding’ growth and managing down public spending were difficult to achieve simultaneously. The details of how this was done are far too intricate to go into in this report; we shall stick to a general overview, as follows. The share that would be retained was initially fixed at 50% for the whole sector. That is, half of business rates would be kept in the sector, which would keep rising, year-on-year. The rest would still be paid to central government. Government would top this up, to the tune of £4.2bn in 2013/14. This would be paid back to local government as a grant. The name for this payment was a familiar one: Revenue Support Grant, but it was rather different from what that name had meant under the Formula Grant system. The Government could then manage this down, in a way which was consistent with figures laid out in the 2010 Spending Review and subsequent announcements.

The top-up of £4.2bn was chosen so that in 2013/14, the total of Revenue Support Grant and locally retained business rates would replace

- Formula Grant (after various adjustments, such as taking out Police Grant and funding for academies),
- Council Tax Support (a localised version of the former Council Tax Relief),
- Eight other existing grants.

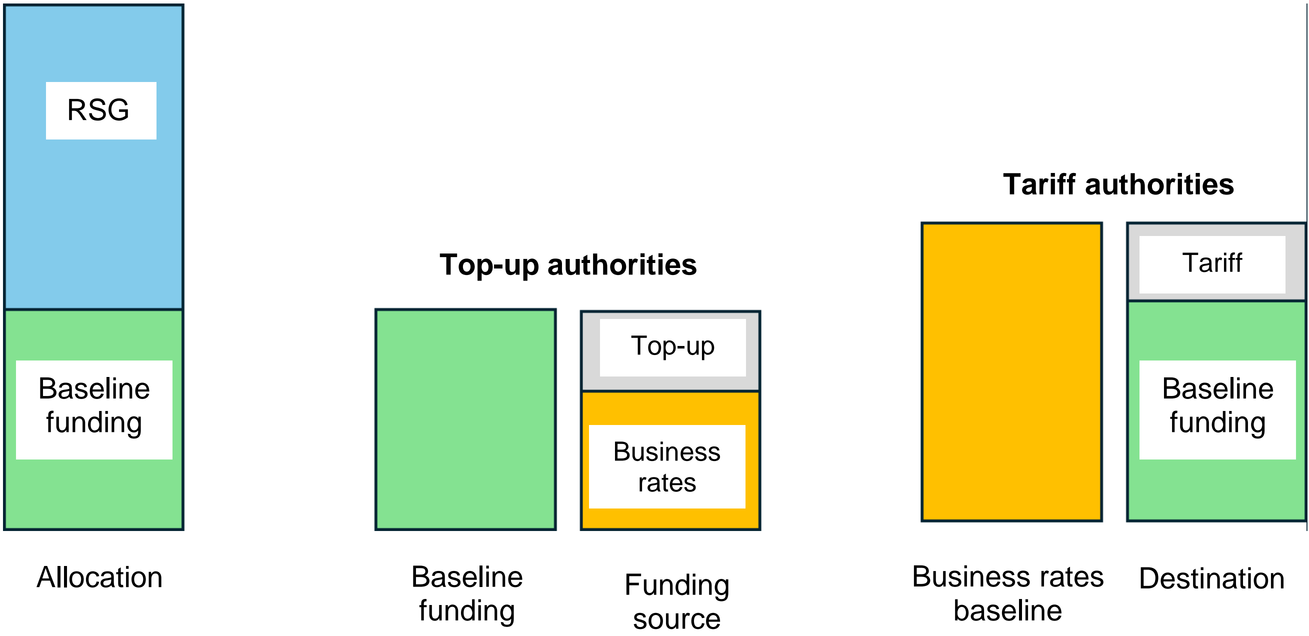
Figure 8 - Composition of Start-Up Funding Allocation



At the local authority level, each council was assigned a Start-Up Funding Allocation (SUFA), which was its share of Formula Grant, Council Tax Support and the eight other grants. Effectively, the SUFA represented a new assessment of 'need', after the deduction for ability to raise council tax which was contained in the Formula Grant calculation. The share of this which was to come from business rates retained by the local government sector was termed the authority's Baseline Funding Level. It was also assigned a Business Rate Baseline – half of the amount that the authority's area was expected to raise in business rates that year, split between upper-tier, lower-tier and fire authorities.

For some authorities, the Baseline Funding Level was higher than the Business Rate Baseline, for others it was the other way round, but they totalled the same at the national level. This meant that equalisation for differing ability to raise business rates could take place entirely within the sector. If the Baseline Funding Level was higher, an authority needed a 'top-up' on top of its Business Rate Baseline – its expected business rates yield – in order to meet its needs. Conversely, if its Business Rate Baseline was higher, it would have surplus business rates beyond its needs in that first year, which would contribute to the cost of the top-ups. So the tariff authorities would pay in their tariffs, which together would pay for the cost of the top-ups to the top-up authorities.

Figure 9 - Tariffs and top-ups



After the first year, the tariffs and top-ups would be fixed in real terms – or, more precisely, they would rise with the multipliers. Councils would keep half the business rates they collected, again shared between the three tiers (upper, lower and fire). The upshot of this was that councils would normally end up keeping half of any growth in yield which resulted from growth in rateable value.

However, it was inevitable that some authorities would see a significant loss in yield in some years. This could happen, for example, if one major business site closed down, such as a power station or large factory, or such a business site succeeded in appealing its valuation. For such authorities, a 'safety net' payment was made, paid for by a levy on unusually high growth in rateable value in other authorities.

Councils would continue to pay the other half of their yield to the Government, which would top it up with less and less funding each year, with the result that they would receive a declining amount of Revenue Support Grant.

Therefore, we have the following picture of a council's funding from the system:

Figure 10 - Elements in council's total funding from BRR

The system thus contains the following elements:

- A 2013-based equalisation for ability to raise council tax in the Start-Up Funding Allocation,
- A 2013-based equalisation for ability to raise business rates in the tariffs and top-ups,
- An equalisation for business rates growth in exceptional circumstances in the safety net and levy payments,
- Retention of uplifts in business rates (other than the equalisation through the safety net and levy payments),
- No equalisation for council tax growth – so councils keep any gain coming through the separate council tax system.

Business rates – potential and actual changes to the system

From the outset, the Government was clear that at some point, the system would need to be reset. Initially, they described two options for doing this – either:

- the growth would continue to be retained, but an updated needs assessment would be applied to the existing baseline, or
- the new needs assessment would be applied to all business rates (baseline plus growth) – a "full reset".

For many years, the Government had a stated intention of the first reset occurring in 2020. During the period 2016-2018, a great deal of work was done on preparing for this reset and addressing flaws with the BRR system. A set of working groups was set up, jointly run by DCLG and the LGA, to explore the reforms in detail. The Government launched two successive consultations and laid a Bill before Parliament for the aspects that would require primary legislation. The Bill got as far as its committee stage, but when the then Prime Minister, Theresa May, called a general election for June 2017, the Bill was dropped.

After the election, the Government continued with the parts of the reforms which did not require primary legislation. This included work towards the new needs assessment – known as the Fair Funding Review – and other aspects of the reset. Two further consultations were held, the second of which included a *Review of local authorities' relative needs and resources*, closing in February 2019. However, this was one month before the original date for leaving the European Union. Parliament was almost completely preoccupied with Brexit from then until the actual departure in December 2020, within months of which Covid-19 struck. Consequently, nothing further was done by the Conservative government on working towards a reset.

During the Fair Funding Review, the Government suggested a third option for a reset:

- the baseline plus a proportion of the growth could be redistributed using the new needs assessment.

Other options, which the Government has not mentioned, are also possible. One of these is most conveniently termed a ‘rolling reset of growth’. It was modelled for London by London Councils and mentioned in its 2011 publication *Resourcing London – a model for retained business rates*. The idea was also mentioned by Andy Hall of Boston Borough Council in his evidence to the CLG Select Committee in 2016, and quoted in the Committee’s report *100 per cent retention of business rates: issues for consideration*:

- A rolling reset of growth operates in the same way as NHB did originally (see above). Each year’s growth is fully retained for a fixed number of years. After that, it drops out – in years in which the needs assessment is recalculated, it is incorporated into the new needs assessment, while in other years, it is redistributed to all local authorities in proportion to their existing baseline.

Some advantages and disadvantages of these options are described in Section 4.6.

While a reset still has not happened, as mentioned in Section 1.3, the Government has now launched a consultation titled *Local authority funding reform: objectives and principles.* The Government’s website implies that this is the effectively the Government’s response (after nearly six years) to the *Review of local authorities’ relative needs and resources*. It proposes that the BRR system is reset in 2026/27 – just over a year from now.

Since BRR was introduced, however, there have been many changes to multipliers and reliefs which affect the system[10].

As mentioned above, the maximum increase to the multipliers was RPI and this was usually how much it was raised by. But in the very first year of true retention, 2014/15, the increase in the small business rate multiplier was held down below RPI, at 2%. This was repeated in 2015/16. The limit has now changed from RPI to CPI.

The Government has also introduced nationwide mandatory reliefs. These take funding out of the BRR system, but the Government provides a separate grant to compensate local authorities for the loss in income. In addition, the Government has acted on discretionary reliefs, providing funding for billing authorities to introduce them for specific purposes (and in some cases putting pressure on them to do so).

[10] There have also been business rate revaluations. This can change the rateable values of individual properties significantly. The government adjusts the multipliers to ensure that the national total of business rate yield does not change is not affected by swings in the rental market, but there can be local, and indeed regional, changes to yields. The Government avoids these changes to local yields feeding through into retained income by making adjustments to the tariffs and top-ups. We do not go into these issues any further in this report due to lack of time, but they should also be considered when redesigning the BRR system.

Although the Government takes steps to ensure that its changes to the business rates regime are revenue neutral to local government, these demonstrate the extent to which the Government retains control over many facets and parameters of the system. Together with the constant possibility of a reset redistributing growth, these lead to considerable uncertainty over the retention of future business rate uplifts. This uncertainty, in general, prevents borrowing against such uplifts[11]. However, there are exceptions, as we shall see in Section 4.5.

NHB – revised scheme

The introduction of NHB in 2011 and BRR two years later was an example of a lack of joined-up policy making. The revolving fund provided by Formula Grant that was intended to fund NHB was absent under BRR. Indeed, much of the motivation for NHB was no longer there – that it was correcting for an effect whereby the tax uplift from council tax could be "equalised away" by Formula Grant.

After the introduction of BRR, councils received both an uplift from council tax and NHB for each home that was built or returned to use. But the cost of the scheme was due to keep increasing until at least 2016-17. So the Government consulted on cutting the scheme back. Following consultation, they decided to:

- Reduce the number of years it was paid for each home from seven years to five years in 2017/18 and then to four years in 2018/19, and
- Introduce a baseline: from 2017/18, payment would only be made for housing growth beyond a 0.4% increase in the tax base.

Consequently, local authorities ended up with two increases in funding resulting from housing growth:

- The revised New Homes Bonus – for which growth was kept for a period reducing to four years, and
- Council tax – for which growth was kept at least until the next reset of the BRR system, when the resource equalisation is likely to updated.

Hence we see that while the uplifts do exist in the current system, their duration is uncertain, due to the frequent changes of policy from the Government. In most cases, they are not expected to last the decade or two that may be required to make borrowing for investment viable. This uncertainty is too great for future uplifts to be factored into calculations with the prudential framework.

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[11] Where we refer to "borrowing against" funding streams in this report, we are not talking about using funding streams as security. The Local Government Act 2003, which underpins the prudential system states that "all money borrowed by a local authority … shall be charged indifferently on all the revenues of the authority". We simply mean prudential borrowing on the basis that the debt will be repaid (with appropriate interest) from these funding streams.

However, if schemes were taken outside the systems and retention of growth were guaranteed, this could make investment on the assumption of future local tax yields viable. This happens for business rates in a small number of particular cases, as described in the next section.

4.5 Exceptions – Tax Increment Financing

Tax Increment Financing (TIF) means what it says: financing debts from increments to tax. More precisely, borrowing for capital investment in a particular area or project creates a debt, which is repaid from the uplifts to taxes resulting from the investment.

It is widely used across the United States, from Boston to San Diego – by 2008, 49 out of 50 states had statutes enabling it. It is also used in Canada.

Here in the UK, the phrase is often taken to mean borrowing against an uplift in business rates. But in principle, the repayment could be from council tax or any other future sources of income.

While business rates and council tax both exist in all parts of the UK, the regimes under which they operate differ between the nations. However, in each case, there are mechanisms to equalise for differing local ability to raise these taxes. It is in England that the principle of retaining uplifts has been taken furthest, under the BRR system. The existence of equalisation mechanisms means that TIF only operates in specific locations where there is a statutory exemption from equalisation.

The legislation under which these are created or enabled is a devolved matter. In England, there are several types of such exemption:

- Three 'New Development Deals' agreed in 2012 (see below),
- A similar regeneration scheme established in 2015 in Brent Cross, London,
- Enterprise Zones,
- The 'local designated area' of Vauxhall, Nine Elms and Battersea Opportunity Area in London.

(There may be a small number of others, but we are not aware of them.)

Enterprise Zones also exist in Scotland and Wales. In addition, TIF schemes have been set up in Scotland under separate (Scottish) legislation. The first was on the Edinburgh waterfront; this was followed by one for the Buchanan Quarter in Glasgow which received provisional approval in 2012, as described in a Greater London Authority report in 2023. The Scottish Government has since supported five other TIF pilots: in Argyll and Bute, Falkirk, North Ayrshire and two schemes in Fife.

Finally, Crossrail in London was part-funded through borrowing £4.5bn, which is to be financed and repaid using a Business Rate Supplement (described in Section

6.1) and Mayoral Community Infrastructure Levy (described in Section 5.1). The Greater London Authority states that Crossrail will lead to additional developments being built, which may lead to additional income from the Business Rate Supplement (BRS). That would assist in repaying the debt.

Enterprise Zones have a unique tax and regulatory environment, which is explained in a 2016 House of Commons library briefing note. This explains that the 2011 Budget announced plans for 24 Enterprise Zones, four University Enterprise Zones were piloted from 2014 and plans for the creation of a further 20 were announced in 2015. Further Enterprise Zones have been created since. They were set up by Local Enterprise Partnerships (LEPs). The financial advantages bestowed upon them include:

- All business rate growth within the zone retained by the LEP for 25 years from April and reinvested in the area,
- Businesses relocating to them in the early years having a business rate discount of up to 100% over a five-year period, as well as Enhanced Capital Allowances for the purchase of machinery and equipment,
- Eligibility to apply for particular grant funding,
- Specific measures relating to planning and broadband.

The retention of business rate growth for such a long period enables upfront borrowing for investment, as has happened in the Royal Docks Enterprise Zone. Again, this is described in the 2023 Greater London Authority report.

The two Greater London Authority documents listed above also describe how, in the Vauxhall, Nine Elms and Battersea Opportunity Area, the extension of the Northern Line to Battersea Power Station and Nine Elms was funded by borrowing. This debt is to be financed using:

- Uplifts to business rates in the 'local designated area', which are being retained for 25 years, "with the possibility of a five-year extension if this was deemed necessary to pay off any remaining debt",
- Section 106 and CIL payments collected by two London boroughs (see Section 5.1 for more on these types of payment).

When the BRR system was being developed, it was realised that this was an opportunity to boost investment by local authorities in major capital schemes. There was a high-profile announcement by the Deputy Prime Minister that TIF would be made a reality. The BRR system that emerged had a place for TIF, in the form of New Development Deals. However, the amount that could be borrowed from these was tightly constrained by the Government.

This is described in a 2023 House of Commons library briefing paper:

"The 2012 Budget set a limit of £150 million which could be borrowed via New Development Deals: the funding would only be available to core cities. The Local Government Association suggested that all areas with good business cases should be able to take schemes forward.

"The justification for a limit lies in the fact that this approach requires funds to be removed from the Business Rate Retention Scheme. Revenue is redistributed within the scheme to ensure that local authorities with lower revenues can continue to provide services: the more money is removed, the less capacity exists for redistribution within the Scheme. Funds borrowed under TIF would also fall within the overall Public Sector Borrowing Requirement, justifying central government taking an interest in the sums at stake."

This latter point was also mentioned in an article in the *Local Government Chronicle* on 29 March 2012, which quoted the Government as saying that such schemes "come at a cost to government since we have to count the cost of the additional capital expenditure the new borrowing supports".

The outcome is explained in TRL Insight's 2020 report, Building Freedom:

"In the end, only three urban areas were involved – Newcastle-Gateshead, Sheffield and Nottingham – as part of the "City Deals" they were agreeing with the Government. … These were followed in 2015 by a single TIF project … in Brent Cross in North London.

"The boost to a local economy even from such a small investment can be impressive though, particularly where TIF can help lever in funding from the private sector and expand existing projects".

We spoke to Newcastle City Council last month (January 2025) and this point was amply borne out from what they told us. The Newcastle-Gateshead NDD involves three sites in Newcastle and one in Gateshead. Under the terms of the deal, the two local authorities and the Government agreed that all business rates growth arising in the sites would be ringfenced and retained for 25 years.

Case study: Newcastle's Accelerated Development Zone

The Newcastle Helix site had previously been home to major breweries. It was selected for the ADZ partly on the basis that it was already part of a development initiative called Central Science City. From the outset, it was a joint venture between the Newcastle University and the council, with a vision for the site based around science and technology. The council's contribution to this site from TIF funding has mainly been around the provision of infrastructure, particularly highways, and public realm improvements.

This site is extremely well developed, with twelve large buildings now complete – eight of them are shown below. These include:

- A 331-bed high-quality student residential block;
- A six-floor building of workspaces, co-working and business meeting spaces;
- An energy centre which provides power to connected buildings on the site, with 10MW of heating and 5MW of cooling;
- Three major science and academic buildings, which include laboratories, office space and modern conference and lecturing facilities;
- Four distinctive and modern office blocks containing a total of over 338,000 square feet of office space, as well as other facilities.

Figure 11 - Eight of the twelve completed developments at the Newcastle Helix site

Newcastle Helix: Completed Development

1 Urban Sciences Building
- 34,500 sq ft, home to Urban Observatory, National Green Infrastructure Facility, National Centre for Energy Systems Integration, Smart Grid Laboratory, Energy Storage Test Bed and the Decision Theatre.
- 4,000 sensors throughout the building providing high resolution data about performance

2 Frederick Douglass Centre
- Named in honour of social reformer, abolitionist and activist-author Frederick Douglass.
- The building accommodates classic lecture teaching and enables more organic learning methods, such as breakout groups, self-directed study, and flipped lectures.
- 78,300 sq ft

3 The Biosphere
- 90,000 sq ft of laboratory and office space
- Four floors of containment level 2 fitted labs
- Grade A office suite and conference space

4 The District Energy Centre
- The Energy Centre covers: 732 sqm
- Providing 10MW of heating
- 5MW of cooling
- 8MVA of power to the connected buildings on the site
- via 5.2km of buried network

5 The Catalyst
- BREEAM Outstanding
- 100,000 sqft Grade A Office Space
- 170 seat theatre
- Exhibition space
- Home to the National Innovation Centre for Ageing and the National Innovation Centre for Data.

6 The Spark
- 105,906 sqft area over 11 floors
- Grade A Office Space
- 10,000 sq.ft typical floor plates
- Designed BREEAM Excellent with an EPC rating of A
- WiredScore Platinum
- Modern flexible workspace
- Powered by the District Energy-Centre
- £30 million Construction Cost

7 The Garage
- 6 storey garage with 513 spaces
- Built for the future with fast-charging points fed by the District Energy Centre

8 The Key
- Dedicated to world-leading structural and materials engineering research and exploring how technology can help to lower energy consumption and make buildings cheaper to run

There are planning applications for a further five buildings, including a hotel.

The Stephenson Quarter development was starting largely from scratch. The site had links with the railway industry (hence the name), with some heritage buildings, but was entirely derelict. To develop this site, the council used its borrowing powers to acquire the land and entered into an agreement with the former landowner to enable them to draw down individual plots for development over a period of time. The council has now formed a joint venture with a different developer to complete the development of the remaining plots. Seven developments have now been completed on the site, including:

- The "Boiler Shop": a Grade II*-listed building from the 1820s which has been restored and repurposed as a 1000-capacity arts, culture and

entertainment venue (listed in the BBC Music's 10 most beautiful gig venues in the UK);

- A University Technical College specialising in IT and Health Science courses for 14-19 year old and incorporating a Grade II-listed engineering works;
- A luxury 250-bedroom hotel, with spa, pool, gym, conference centre and restaurant;
- An extension to a boutique hotel.

Both the Boiler Shop and the luxury hotel have won design awards, as described on the Stephenson Quarter's website.

As well as the provision of infrastructure and public realm improvements, the council has spent money from its TIF borrowing on land acquisition on this site.

The council's role in the East Pilgrim Street site is largely limited to planning, relationship-building and public realm improvements. They have provided a limited amount of infrastructure, but this has been funded from grants; anything further will be from developer contributions, such as through Section 106 agreements (see Section 5.1).

It was the slowest to develop, but is now "really motoring". One 14-storey office building has been completed on the site, with associated hard and soft landscaping and engineering works. There are plans for more, including a 43,000 square foot office building for HMRC, which will provide accommodation for 9,000 staff and incorporate the Grade II-listed façade of Carliol House.

Across the three sites, about £50m has been invested to date from TIF-based borrowing. Most of the council's borrowing since the start of the ADZ has been from the PWLB. (The loans they take out don't tend to be specific to the ADZ, they are planned within the wider treasury management strategy of the council.) About another £70m has been provided from grant funding. Naturally, the investment in infrastructure is heavily front-loaded to the early years of the project. The assets that result are held on the joint venture's balance sheet.

When capital receipts have been generated during the course of the project – such as selling plots to developers who are not parties to the joint ventures – these are put back into the ADZ. But the council is not using any capital receipts in these developments from other projects elsewhere in the city.

To date, about £300m has flowed in from private sector development investments.

Any growth in business rates is retained by the council. The debt incurred at the start of the project is repaid from this. The growth is rising as new properties are completed and the debt is therefore declining. The council is approaching the point

where business rate receipts from the new properties are matching the debt financing costs.

By the time the work in the ADZ finishes, the council believes around £1bn will have been invested across these three sites. The TIF mechanism provides about 6% of this, with another 8% from grant, but this is a crucial part of the package, as it provides the infrastructure and quality public realm that the developments rely on.

So far, the ADZ has secured about 12,000 jobs and increased economic output by about £450m. It is estimated that by the end of the scheme, a total of 16,000 jobs will have been secured (comfortably exceeding the 13,000 set out in the 2012 City Deal), with an annual economic output of about £520m.

We have not spoken to Gateshead, Nottingham, Sheffield or Barnet (the local authority involved in the Brent Cross TIF scheme), but it is quite possible that the scale of transformation may be similarly impressive in at least some of those.

For example, in Nottingham, TIF was part of its City Deal, which created a package of investment for its Creative Quarter. The Deal states that the infrastructure improvements required to realise the full potential of the Quarter include “A programme of transport infrastructure and public realm improvements to fully connect the Creative Quarter, part-financed by Tax Increment Financing”. A submission by Nottingham City Council to the Local Government and Communities Committee states that £8m of transport schemes in the Creative Quarter were funded by TIF. The investment has facilitated its Creative Quarter Project which has been highly successful. It has seen the creation of a thriving hub for independent businesses in the new Sneinton Market Avenues, and the largest employment growth in the UK's creative digital industries since 2015 – a 905% increase in these industries in the Quarter over the ten years to 2023. This has contributed 11% GVA to Nottingham's economy at a value of £1.2 billion, growing nearly five times more than the average industry in Nottingham.

4.6 How to ensure that return on investment is sufficiently certain

As mentioned in Section 1.3, the Government has announced it will be holding a reset of the BRR system in 2026-27. The Objectives and Principles consultation is the first stage of the process. This provides an opportunity to reshape the system, to unlock local authority capital investment in growing sustainable communities. With the appropriate choices, the system can ensure that local tax uplifts are sufficiently predictable to facilitate borrowing against them. This could be achieved for business rates for significantly more schemes than under the NDD regime; it could also be achieved for council tax uplifts.

In this section, we consider what the most appropriate choices would be for reshaping the BRR system. As we saw in Section 4.3, there is a tension between providing more disadvantaged councils with greater funding and councils keeping

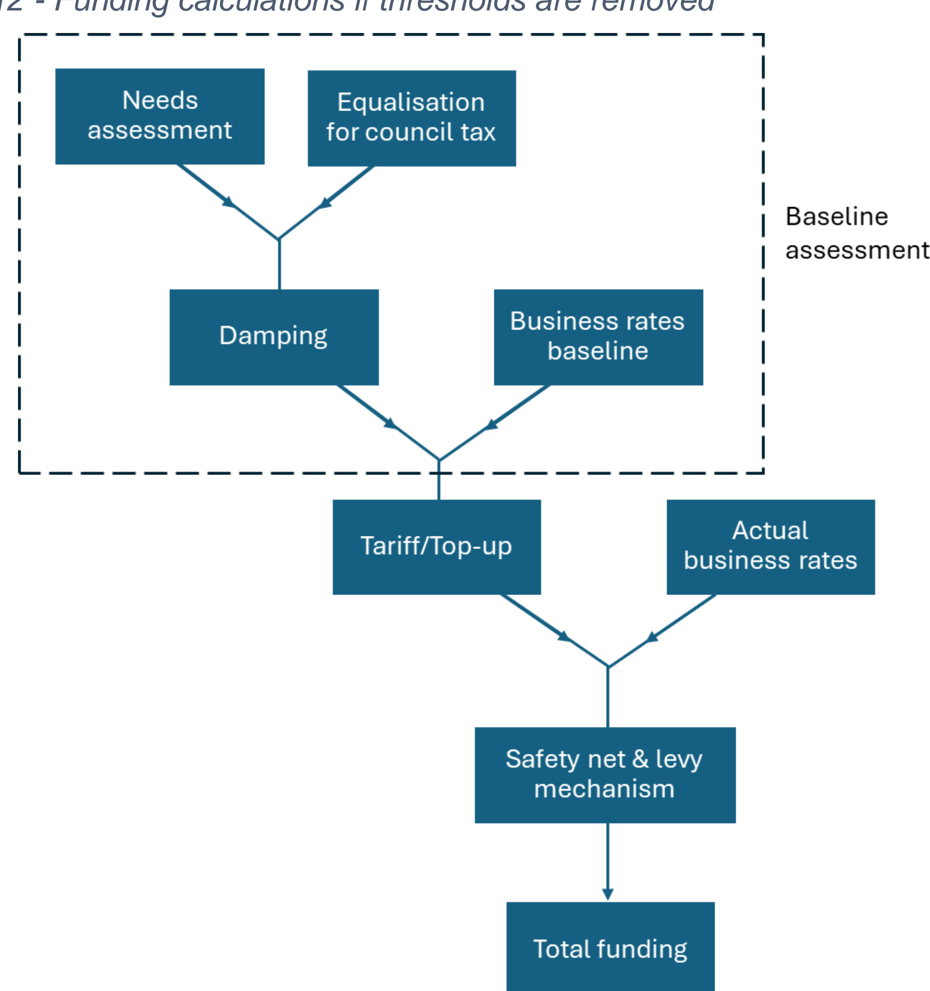
the uplifts from local tax growth. Our approach to resolving this is based on the following principles:

- Uplifts should be sufficient – and, crucially, sufficiently predictable – to make much-needed capital investment viable;
- Beyond this point, growth should be redistributed to support councils with the most pressing challenges.

We start by remarking on what is perhaps the most egregious source of instability in the system: the mechanism of thresholds and central allocation. As explained previously, this can cause turbulence in recalculating formulae for which no reasonable explanation can be provided. We suspect there is little appetite in the Government for continuing this mechanism, but there is no harm in reiterating this point here.

If this were removed, the baseline calculation could resemble the grant model before it was introduced. The process for such a system which leads to the total funding amounts is shown in Figure 12 below.

Figure 12 - Funding calculations if thresholds are removed



Note that the equalisation for council tax yield in the baseline year happens *before* damping. The equalisation for business rates in the baseline year happens *after* damping, in the calculation of the tariffs and top-ups. There is then a second damping-type mechanism, for actual business rates, in the calculation of safety net and levy payments.

Now, the second damping calculation is absolutely necessary at present, due to the large jumps in business rate yield that can occur between years. Much of this issue is caused by valuation appeals. If this problem of large appeals is sorted out satisfactorily in the revised system, it might be that the need for this mechanism is removed, but it is equally possible that it may need to remain for other reasons. Council tax, on the other hand, does not generally see large downward adjustments, so a corresponding mechanism for damping changes in actual council tax received is not needed.

However, there appears little sense to having the damping in the baseline calculation after equalisation for one tax, but before the other. It would be more logical and clearer to equalise for both of these in the same stage in the process. Whether this is best to occur before or after damping depends on the method used for redistributing business rate growth.

Methods of redistributing business rate growth – strengths and weaknesses

In Section 4.4, we looked at four methods for redistributing business rate growth:

1. A 'full reset', in which the new needs assessment would be applied to all business rates (baseline plus growth),
2. A reset in which all growth since 2013/14 would continue to be retained, but an updated needs assessment would be applied to the existing baseline,
3. A reset in which the baseline plus a proportion of the growth could be redistributed using the new needs assessment',
4. A 'rolling reset of growth', in which each year's growth is fully retained for a fixed number of years, after which it is redistributed[12].

From the point of view of stability of funding – a principle the Government says it will be "informed by" and one which is important to councils – the full reset is the worst of these options. The growth that has been achieved since 2013/14 would be wiped out and redistributed. If this were used at every reset going forward, councils would not retain any uplift to business rates beyond the end of the reset period (excluding

[12] We specify that this is a 'rolling reset *of growth*', because the term 'rolling reset' could also refer to how the needs element of the baseline is updated. This could also be done on a rolling basis, but the two do not necessarily need to go together, and how frequently the needs assessment is recalculated is outside the scope of this report.

anything provided through the transition mechanism – see below). It would also abolish the growth incentive in the reset year itself (again, if it were not for the transition mechanism). This could introduce a peculiar perverse incentive, to avoid hereditaments being added to rateable value in those years. In theory, this could lead to projects being rescheduled, though we have not sought to test this question with local authorities.

At the other extreme is option 2, the possibility of councils retaining all growth in business rate yield since 2013/14 indefinitely. Indeed, if this option were used at every reset, councils would retain all growth from every year for all time. Only the baseline would be redistributed, which would form an increasingly small proportion of the total. While the retention of uplifts would be certain in this model, it would do little to help disadvantaged communities. It could easily see some authorities on a constantly rising trajectory of growth while others decline in a downward spiral.

Option 3 provides more of a balance between these. If local authorities keep some of their growth, while the rest is recycled in the reset, this would avoid the sink-or-swim nature of option 2, while retaining some level of incentive even in reset years. There would still be the potential for significant shifts in baseline funding in reset years, albeit not to the extent of a full reset. The amount of growth retained would also vary between years – if, for example, a reset took place every six years, the growth between the reset year and the following year would be retained in full for another five years. However, much of the growth in the last year before the reset would be redistributed just one year later.

The rolling reset of growth appears to strike an even more helpful balance. Each year, authorities will keep most of their business rate growth. But there would also be a steady stream of funding being added to baselines. This could provide a lifeline for some authorities struggling with rising needs. And unlike option 3, each year's growth would be fully retained for the same number of years (as happened with the original New Homes Bonus scheme). A further advantage is stability – under options 1 and 3, the retained growth would either disappear or at least significantly reduce suddenly in reset years. Under a rolling reset of growth, this would be smoothed over the whole cycle. (There would, however, still be shifts in baseline funding whenever the needs assessment was updated.)

Retaining uplifts from house building

Let us now turn to retaining uplifts from house building. As explained in Section 4.4, uplifts currently come from two sources, council tax and New Homes Bonus.

The Objectives and Principles consultation says the following about the latter:

> *"We know that the New Homes Bonus has been an important source of funding for local authorities…*

“However, we are aware, including in recent consultation responses to the Local Government Finance Settlement, that the efficacy of the housing incentive is blunted by the interactions with the remainder of the Settlement.

“The government intends to consider a range of options for how to balance the principles of robustness and sustainability through the Settlement with wider housing objectives. This includes exploring allocating all Settlement funding according to our updated distribution methodology, and subject to wider spending review decisions, providing a housebuilding incentive outside of the Settlement.

“The government proposes that 2025-26 will be the final year the New Homes Bonus is paid in its current format. The government will consult on detailed proposals for arrangements beyond 2025-26 in the first half of 2025. However, ahead of that consultation, we welcome views on the best way to enable and encourage local authorities to support housebuilding in their areas.”

In Section 4.3, we saw that the Formula Grant system meant that the uplift from council tax could be, at least in part, ‘equalised away’ for ‘scaled authorities’. NHB was intended to patch up this problem. However, under BRR, there is no need for this to happen, as there is already an uplift from council tax, for the periods between resets. Indeed, the uplift can be partially retained for longer than this, depending on the nature of the damping/transitional mechanism, as explained below.

However, if taxbase projections were used as per formula grant, this could complicate matters. As explained in Section 4.4, these effectively assume that prior growth rates will continue. If they are used in the calculation of the equalisation amount, councils will need to exceed this growth before they receive more from council tax than is deducted through equalisation. Conversely, if the new baseline uses taxbases from a few years previously, it might be possible to give councils a ‘head start’ on generating council tax uplifts.

Damping/transition mechanisms

If the reset occurs to schedule in 2026/27, it will involve a needs assessment to reset the BRR baselines for the first time in thirteen years. The Government is alert to the need for a transitional mechanism to ease authorities from their existing baselines to the new ones, as the scale of the changes could be very large indeed. This was consulted on as part of the Fair Funding Review under the previous Government.

During this period, LG Futures provided a transition options model to the LGA. This allowed local authorities to get a sense of the impact of various possible transitional mechanisms. In this model, the starting point was taken to be local authorities’ shares of ‘settlement funding’ in 2019/20. The user could choose what percentage above or below this level their ‘target’ assessment would be – this represented the baseline that the Government would move the authority to over time. They could also set the other authorities’ baselines either:

- to be spread around their starting points in a normal distribution (and set the 'spread' of this distribution), or
- to be spread around their starting points in the same pattern as the damping that was in place in 2013/14.

The first mechanism that the LG Futures model illustrated was a 'floors and scaling' model, much as used in Formula Grant.

The second was a 'pace of change' model. This was the mechanism used in Public Health Grant and in transitional relief for business rate bill payers. Here, the gap between the starting point and the target reduces by the same proportion each year. It is worth noting that the Objectives and Principles consultation only describes and illustrates one particular transition mechanism, in Section 7.2, and it is this one. The consultation uses a different name for it, referring to it as 'blending in'.

The other two mechanisms are variants on the same ideas – combining a pace of change mechanism with floors.

The pace of change or blending in mechanism seems far more appropriate to BRR resets than a system of floors and scaling/ceilings. The floors system is designed for use in a system in which funding changes from one year to the next, whereas in BRR, the baseline goes for long periods without changing. The transitional mechanism should be designed to

- smooth out sudden changes in the year of the reset, and
- ensure that all authorities are moved to their final values before the next reset.

For this purpose, the pace of change/blending in approach seems well suited.

The other question, as alluded to above, is where the transitional mechanism sits in the calculation of the top-ups and tariffs. The system could be rationalised by equalising for both local taxes at the same stage in the process. The whole process would then look like either Figure 13 or Figure 14 below.

Figure 13 - damping before equalising for both taxes

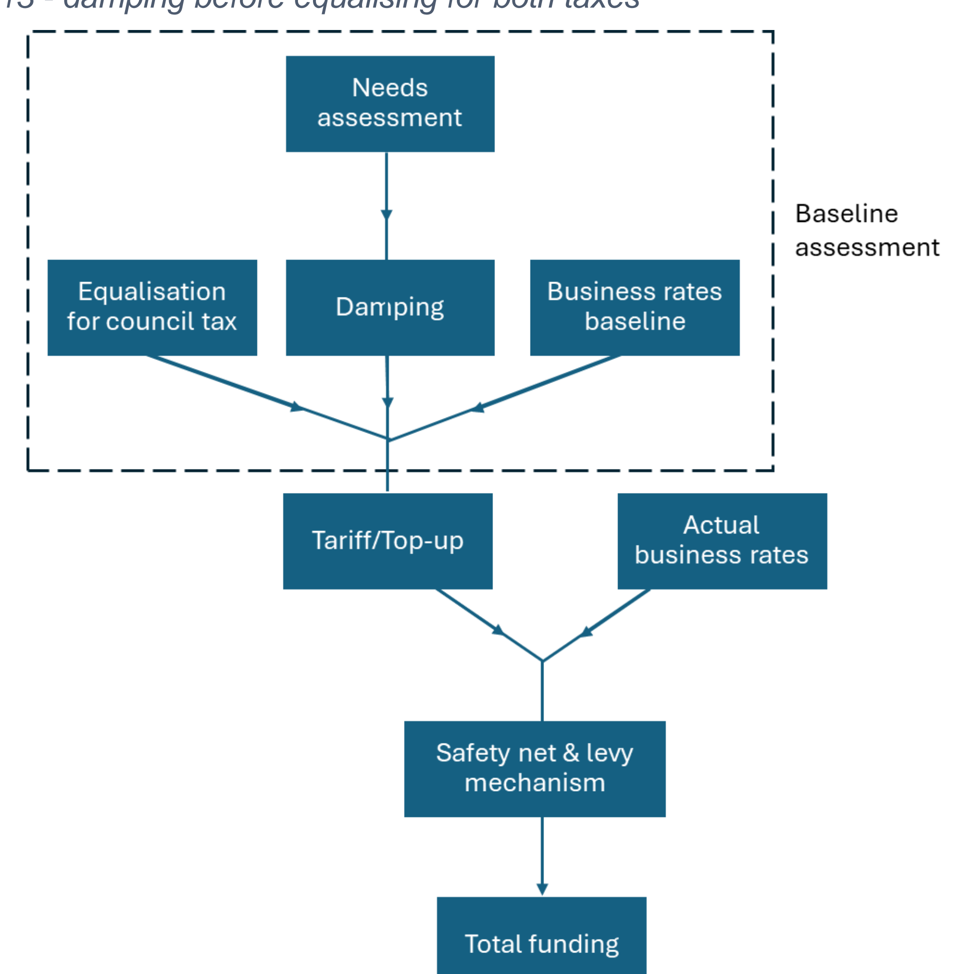
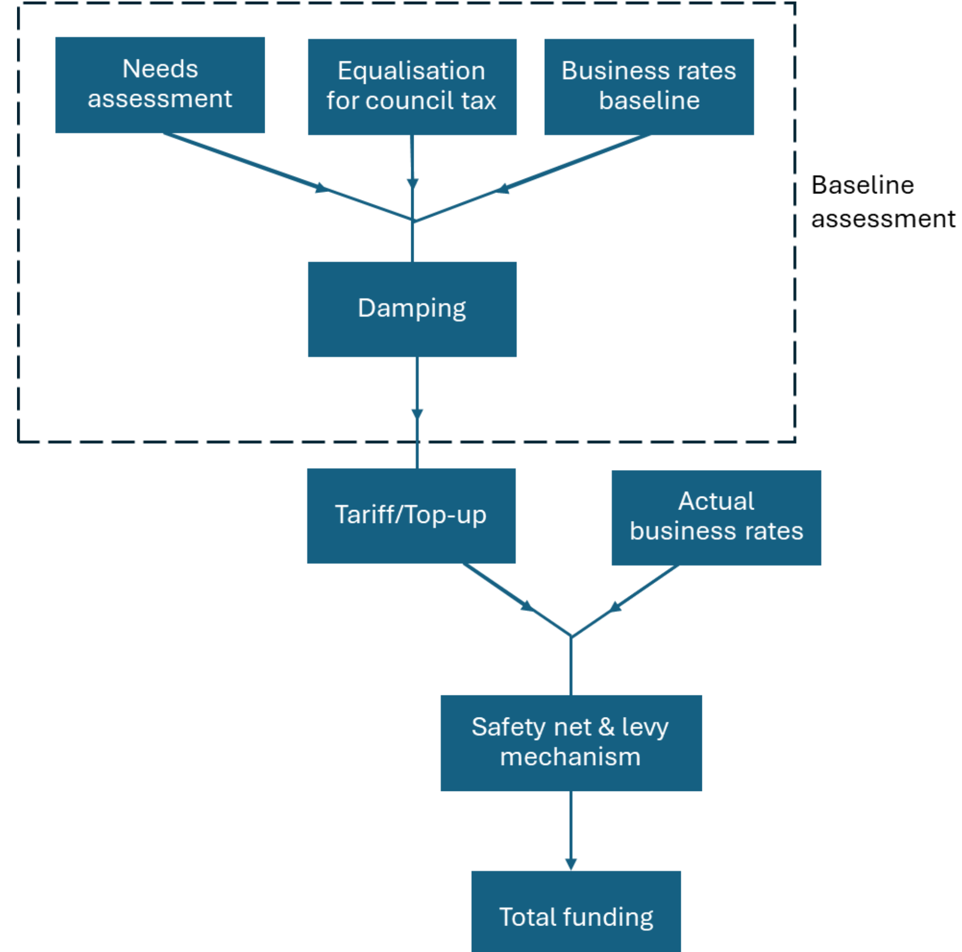


Figure 14 - damping after equalising for both taxes



Let us first consider options 1 and 3 above, in which part or all of the growth in business rates yield is distributed at regular intervals (resets). We have already noted that in these years, there is a reduced or zero uplift for business rates – and indeed there is for council tax too.

If the transitional mechanism were applied just to the needs base, as shown in Figure 13, this would lead to sudden changes in the top-ups and tariffs, due to growth in the two tax bases. (There may also be a few authorities which see a drop in their business rate yield over the period as a whole.)

But if the transitional mechanism were applied after netting off both business rates and council tax amounts, as shown in Figure 14, the effect on the tariffs and top-ups would be spread over several years. This would extend the period over which councils benefit from uplifts in the taxes and allow these uplifts to taper off. With a pace of change mechanism, tax uplifts would be scaled back for all authorities at the same predictable rate (in relative terms – that is, all scaled back by the same percentage, in each year of the reset). This contrasts with the floors and scaling mechanism, where scaled authorities have a portion of their uplift redistributed, but other authorities may remain on the floor for many years and retain all of their uplift.

However, this tapering would come at a cost to authorities which had not seen such growth. To ensure fiscal neutrality, if some authorities were to have the reductions in their baseline cushioned in this way, others will need to have the increase in their baseline curtailed. A thorough understanding of the impact of this could only be determined by modelling.

Now we turn to option 4, the rolling reset of growth. In this case, there is no point at which there is a sudden change in the retained tax. The transitional mechanism would no longer be needed to smooth away sharp edges in the resource equalisation. It would therefore seem to make sense to apply the transitional mechanism purely to the needs assessment, before equalising for the two local taxes. This would then mean that all tax uplift is kept for the same number of years before dropping out.

For council tax, this would replicate the original version of NHB, other than the additional payment for affordable housing. A smaller sum than is currently spent on NHB could then be used to:

- continue to provide additional funding for affordable housing, if this is felt desirable (given the increases that are already happening to the affordable homes budget);
- reduce the differential between the uplifts from high band and low band housing, so that councils gain more equally from whatever value of home is built.

It should be borne in mind that all of the above arguments are purely theoretical ones; further effects and subtleties might emerge from quantitative modelling.

Recommendations for Government:

- **When the BRR system is reset in 2026/27, the calculation of new tariffs and top-ups should not involve any needs or resources 'thresholds' or a 'central allocation' – they should just be composed of the following (not necessarily in this order – see recommendation further down the list):**
    - **A needs assessment;**
    - **A resources deduction – for both council tax and business rates in the baseline year, at the same stage of the calculation;**
    - **A damping/transitional mechanism**
- **For any reset for a multi-year period, redistributing all business rates growth since the previous reset (the baseline year) would be the worst option for stability and could create an incentive not to add hereditaments to rateable value in reset years;**

- **Conversely retention of all BR growth at reset could entrench trajectories of growth and decline;**

- **The Government should model the redistribution of each year's business rate growth a fixed number of years later; this could turn out to be the best blend of stability, retaining uplifts resulting from growth and providing timely additional funding for disadvantaged councils;**

- **A partial redistribution of growth is likely to be the next best option;**

- **Avoid using taxbase projections in the resource deduction: councils would then need to exceed the growth that they describe before they receive more from tax than is deducted through equalisation. If the growth used in the projection is from an exceptional year, it may be several years before they achieve this;**

- **The Government should carry out modelling of the use of council tax base data from several years before each reset in the resource deduction, to see if this provides more years' uplifts (and whether there are any unwanted side effects);**

- **Choose a simple damping/transitional mechanism, which treats all authorities in similar ways – a "blending in" (or "pace of change") mechanism appears sensible, but it would be prudent to carry out some modelling to determine whether there are any unforeseen flaws with it;**

- **Whether it is best to apply the transition mechanism to just the needs assessment or apply it after deducting for the taxes is likely to depend on the way in which business rate growth is redistributed. There is logic to suggest that for a redistribution of growth at multi-year intervals, it is best to apply after the resource deductions, while for a 'rolling reset of growth' it is best to apply just to needs. The Government should carry out modelling of these options to determine whether the above arguments are borne out and whether there are any unforeseen flaws in these proposals.**

- **Use the budget for NHB to:**

  - **continue to provide additional funding for affordable housing, if this is felt desirable (given the increases that are already happening to the affordable homes budget)**

  - **pay a top-up to retained council tax for lower band properties, to reduce the differential in income from different values of property**

Tax increment financing in the future

The previous subsection proposes changes to the baseline which would enhance the retention of local tax uplifts. This would help to ensure that councils have the funding they need to meet the cost of providing services to the new neighbourhoods and growing communities. It may also be enough to facilitate some short-term investment. However, it is unlikely that any authority will be able to use these retained uplifts to unlock the scale of regeneration that has taken place in Newcastle. As we saw in Section 4.5, their NDD was agreed in 2012 and many of the resulting developments are still in the construction phase. After thirteen years, the sums that they have borrowed to invest are still some way off being fully repaid.

With these timescales, it will be necessary to take such schemes outside resets and any other changes to the system that might reduce or divert business rates growth arising from them – as is the case for NDDs and Enterprise Zones. The same could be done for council tax growth for schemes which have a residential component.

It should be remembered that the £50m of borrowing and £70m of grant in Newcastle have resulted in a total of around £1bn of investment. This investment might not have happened if it were not for the TIF borrowing; even if it had gone ahead, it would have been on much slower timescales. Most, if not all, of the business rate receipts that Newcastle has used to pay back the borrowing would not have occurred, as they have arisen from hereditaments built under the scheme. Taking such rateable value out of the reset system therefore does not reduce the funding available to other authorities at the reset. Neither does it come at a cost to central government, as the debt is incurred and paid for by the local authority. Indeed, there is a substantial return to central government, through the tax receipts arising from increased employment.

For these reasons, we do not think it is reasonable to impose a cap on such schemes, as was done in the case of NDDs. The Government's commitment to reduce competition for funding should be extended to these schemes.

We recognise that were schemes to be implemented which would have gone ahead even in the absence of TIF, then yield would be retained by the authority which would otherwise have been redistributed to the rest of the sector at a reset. However, such a counter-factual is very difficult to prove, as we shall see for BRS in Section 6.1. And even in these cases, there is likely to be both an increased local tax yield and a boost in employment, resulting in increased tax receipts for central government, beyond what would otherwise occur. We therefore suggest that if the Government feels that there is a need for a 'but for' test for such schemes in future, that it consults with local government on a workable metric or proxy for assessing this, which would not hold back schemes unnecessarily. With the potential for such large-scale regeneration, boosts to local economies and increased tax receipts, it is not in the Government's interests to be overly rigorous in policing such a test.

There is then a question of how long local tax growth should be retained for, before it is redistributed to the rest of the sector. The determining factor in making such

schemes viable is whether there is sufficient confidence that all debt can be repaid from the retained uplifts. Eventually, the sites will generate surplus receipts beyond the annual loan repayments. Even then, it could be many years before debts are fully repaid. In Newcastle's case, their City Deal states that "it is expected to generate incremental annual business rates of up to £21m (and £320m in total) by 2038 [the final year of retention], enabling borrowing to be paid back by 2031". Clearly, a period of decades is needed for regeneration schemes of the scale of the one in Newcastle. It may take further research and/or consultation to establish the exact time period required for loan repayments across other parts of England, particularly for schemes in which council tax is retained for loan repayments. However, it may well be the case that a central prediction is insufficient – that a "time buffer" may be needed to provide confidence for investing, in case projects get delayed.

It is worth noting that if borrowing under a TIF regime results in financial assets for the council (for example, loans to a partner in the regeneration, or equity in a body which will deliver the investment), its only impact on the Government's fiscal rules may be a positive one:

- The Investment Rule says that PSNFL must be forecast to be falling as a proportion of GDP by 2029-30 at latest. Thereafter, this ratio should always be falling by the third year of the rolling forecast period. PSNFL differs from Public Sector Net Debt excluding the Bank of England (PSND ex BoE) used previously, in that it nets off illiquid financial assets owned by the public sector as well as liquid ones. If these result from a TIF scheme, they will be netted off the borrowing, leaving no impact on PSNFL.

- The Stability Rule says in each fiscal event for the next two years, the current budget must be forecast to be in surplus by 2029-30 at latest. Thereafter, the current budget should always be at least "in balance" by the third year of the rolling forecast period – that is, resource spending is met from taxes and other revenues, with a surplus or with a deficit of no more than 0.5% of GDP. At the local authority level, each pound of expenditure on debt repayment will be matched by additional local tax receipts. This repayment will usually be to central government, for a loan issued by PWLB. However, central government will also receive tax receipts from the businesses and employees in the zone being regenerated. (There may be additional services that the council needs to provide, such as waste collection from the businesses in the zone, but this would be paid for from additional charge income, from council tax and from other grant funding, as councils are required to maintain a balanced revenue budget.)

However, we would strongly advise against the Government insisting that particular vehicles are used for investment, as a way of avoiding adding to PSNFL. It should be for the councils and developers involved in such schemes to determine the most appropriate structures for investment. A previous insistence on keeping investment

"off balance sheet" for the public sector led to the Private Finance Initiative (PFI) being used for many capital project for which it was entirely inappropriate. This widespread unsuitable use of the mechanism has been heavily criticised; for example, the Treasury Select Committee of the House of Commons highlighted its failings and warned against this continuing, in its 2011 report *Private Finance Initiative*.

Such an accountancy "ruse" should be avoided in future. In the long term, we suggest that the Government embarks on a reform of public sector accountancy, to align it more precisely with their vision for the UK, as laid out in TRL Insight's report *Building Freedom*.

Recommendations for Government:

- **Create a fresh round of agreements similar to New Development Deals. These would relate to specific geographic areas to be regenerated. Within these areas, councils retain all growth in business rates, council tax or both, for an agreed period, at least until an agreed level of initial borrowing is paid off. The additional receipts should be excluded from redistribution at BRR resets and from any other changes to the business rates, council tax and local government funding systems;**

- **The Government should consult with local authorities, including those who have been involved in Tax Increment Financing to date, to determine appropriate criteria for agreeing these deals, based on ensuring the following:**

    - **That the schemes are viable, through providing sufficient certainty that borrowing can be repaid to schedule;**

    - **That the local tax receipts are, for the most part, additional to what would be generated without the mechanism;**

    - **Evidence for meeting the criteria is simple to provide (not overly onerous) and not such that schemes are artificially limited (for example, there should not be a 'but for' test which is difficult to meet);**

    - **Capital investment can be unlocked in many locations across England;**

- **There should be no national cap on the combined total of the sums borrowed.**

5. Contributions from developers and Government

This chapter looks at how developers can contribute to funding infrastructure and how the Government can best support local economic development through grant funding. It urges local authorities to seize the opportunities provided by the forthcoming introduction of Strategic Authorities and proposes ways of improving the main mechanisms for developer contributions in this context. It highlights the concepts behind two grant streams that can be built on in future.

5.1 Developer contributions

Across England, there are two mechanisms through which most financial contributions are made by developers to infrastructure. These are both described in the Annex to *Improving infrastructure funding and delivery*.

The largest contribution is made through 'Section 106 agreements'. Under Section 106 of the Town and Country Planning Act 1990, developers can enter into a 'planning obligation' with the local planning authority. This can involve one or more payments to the authority, to fund infrastructure and/or affordable housing. Since 2010, this has to be specific to the site of the development, meeting three legal tests. Payments are made at agreed 'trigger points'.

The second of the two mechanisms is CIL. Unlike Section 106, the rates that developers pay do not result from negotiation over individual sites or projects; rather, they are according to a schedule of tariffs drawn up by the planning authority for all developments. The authority also specifies the types of infrastructure the receipts will be spent on, through an Infrastructure Spending Statement (from 2019). Developers pay in instalments on dates after commencement on site.

There is a requirement for 25 per cent to be spent on neighbourhood priorities where there is a neighbourhood plan in place, or fifteen per cent where there is not. In areas with a town or parish council, the levying authority must transfer at least this amount to the town or parish council. In London, there is an additional Mayoral CIL that the Mayor of London may levy.

While councils may repay prior expenditure, they are prohibited from borrowing against the levy – other than the Mayoral CIL in London.

Improving infrastructure funding and delivery describes the strengths and weaknesses of these two types of developer contribution. An overall flavour of the use of Section 106 is stated as follows:

> *"Section 106 should be viewed as a tool in the planning system. It can be highly flexible and responsive to specific needs of each development. However, without a vision for a development which is shared between a*

planning authority and its statutory consultees, it can confront developers with many uncoordinated demands."

The report also states two councils' views of CIL:

'One large unitary authority told us that the levy takes time to learn to use well. There is a need to be clear on what it is going to deliver. Despite many exemptions, it can be used for many different assets, and is "the better tool for larger, strategic projects." 'One district council told us that the scale of their development meant that a holistic approach was needed. The levy was better suited to this than planning obligations were.'

The report shows that over the period 2015/16 to 2020/21, several times more local authority capital expenditure was funded by Section 106 agreements than by CIL. However, it quotes a 2019 academic study which "found that affordable housing constituted two thirds of the nominal value of all developer contributions entered into in 2018/19", which "limits the availability of planning obligations for infrastructure". Research by Savills from October 2024 has found that over the three years to March 2023, 26,000 homes per year were delivered using Section 106 agreements for affordable housing. It suggests that delivery is likely to continue at around this rate over the second half of the decade.

There is greater potential to raise both Section 106 and CIL in areas in which growth prospects are already strong. *Improving infrastructure funding and delivery* found that in the quarter of planning authorities which had the highest housing growth between 2007 and 2014, expenditure financed by Section 106 over the following seven years averaged £55 per head. This was nearly three and a half times as much as in the quarter of authorities with the lowest housing growth (£16 per head). For CIL, the ratio was even higher: the spend in quarter of authorities with the highest prior housing growth was over 4.5 times as much as in the lowest quarter.

There is also a huge discrepancy between London and surrounding areas and the North of England. *Improving infrastructure funding and delivery* finds that

"expenditure funded by Section 106 receipts is far smaller in the North of England and the Midlands than in the South. Indeed, payments in lieu of affordable housing in London alone … were more than the total funded from all Section 106 payments and the Community Infrastructure Levy combined, in any region in the Midlands or the North"

For CIL, many authorities have not even introduced it, because it would not be viable – "only raising minimal amounts". These are spread around England, but are more common in the Midlands, North and far South West – in the seven years up to 2020/21, only one in five planning authorities in the North West received any levy. Furthermore,

"Even where the Community Infrastructure Levy is in use, the North and Midlands often raise less than their southern counterparts… London boroughs

in total receive seven times more Community Infrastructure Levy per net home built than shire areas and thirteen times more than metropolitan areas."

It is worth remarking that capital receipts will also be highest in areas with higher land values.

Much of this variability in the amounts that can be raised from these developer contributions – and indeed, whether CIL is viable at all – is driven by the sale price of properties. This, in turn, depends heavily on the desirability of the area and the demand for property there. The variability of this can largely only be reduced with public sector interventions to 'level up' areas where lower demand is reflected in property prices – the market tends to respond to existing demand, rather than stoking it in areas where it is depressed. We will look at this in Section 5.2.

However, the example in Section 3.3 makes it clear that developer contributions depend more precisely on how much of the sale price is left once the price of the land, construction costs, financing and services, and developer profit and contingencies are deducted. The developer profit and contingency costs in turn reflect the risks of the project, such risks of the project slipping behind schedule or additional costs being added, as mentioned in Section 4.2.

Such project risk during delivery can be reduced by:

- The aims and vision for each development being clear at the outset, by being laid out in plans of the planning authority and any authorities with an involvement at strategic level;
- Sessions between developers and these authorities to address issues as they arise (*Improving infrastructure funding and delivery* describes this happening in a development called Beaulieu in Essex);
- Using an 'adaptive approach'.

The concept of an adaptive approach is described by the National Infrastructure Commission in *Rail Needs Assessment for the Midlands and the North (final report)*. The idea is for the parties to "commit to a core pipeline" of deliverables. If it proves affordable to do so, enhancements can be added to these, provided that:

- It is clear that the core components are being delivered on time and to budget;
- The additional elements contribute to meeting the original aims of the project;
- The plans for them are sufficiently developed, with robust cost ranges.

The need for clear aims and vision for each development, meanwhile, is expressed vividly in *Improving infrastructure funding and delivery*:

“In our conversations with developers, they stressed that what they wanted from the planning system was clarity, certainty and simplicity. They do not want providers pulling them in different directions during the planning process. This requires all providers to have a set of shared goals, rooted in the specific needs of each development. Such a vision can be provided through a strategic level infrastructure plan – as one developer put it to us.

“We heard from some councils of the difficulties that could be encountered if key infrastructure partners were not engaged sufficiently early in the process. One large unitary recommended involving all of them in developing local planning documents.”

It also reports developers asking for a “strategic-level infrastructure plan”. This would help to ensure that the basis for charging contributions is “grounded in what is economically viable for developers to pay”, with clarity about what they are paying for.

This is all in keeping with the Royal Town Planning Institute’s principles of good infrastructure planning:

1. A shared vision of place with clear objectives
2. Specific infrastructure priorities identified to achieve that vision, aligned to funding sources
3. Effective and early engagement to align planning and delivery
4. Capacity, knowledge and resources
5. Continuous learning and dissemination

The creation of Strategic Authorities now provides a good opportunity to advance this.

As set out in Section 1.3, Strategic Authorities will be required to produce Spatial Development Strategies. These will identify sites for development and apportion housing growth to planning authorities on this basis. They will also enable the authorities to identify the infrastructure necessary to support these developments. An example of a draft SDS can be found on Liverpool City Region’s website. Note that the “supporting evidence” includes a Strategic Infrastructure Plan.]

It would hugely ease the course of planning applications if the vision for the sub-region expressed in these documents is developed in a collaborative way. The English Devolution White Paper makes the case for such collaboration between strategic and principal local authorities. It states that the Government expects

“that the authorities producing SDSs will be able to encourage the pooling of resources and prioritising of efforts across their constituent authorities to meet housing need”,

and

> *“high levels of collaboration to be demonstrated between the Strategic or upper-tier local authorities who are responsible for the SDSs and local planning authorities in the area. There will be a formal duty for responsible authorities to consult district councils on the development of the SDS and a route for district councils to raise concerns with the planning inspectorate”*.

Meanwhile, the NPPF stresses the need for planning authorities and county councils to co-operate with each other, in the interests of effective strategic planning:

> *“Effective strategic planning across local planning authority boundaries will play a vital and increasing role in how sustainable growth is delivered, by addressing key spatial issues including meeting housing needs, delivering strategic infrastructure and building economic and climate resilience. Local planning authorities and county councils (in two-tier areas) continue to be under a duty to cooperate with each other, and with other prescribed bodies, on strategic matters that cross administrative boundaries”.*

It also makes clear that strategic authorities should collaborate and engage with local communities, county councils and infrastructure providers, among others:

> *“Strategic policy-making authorities should collaborate to identify the relevant strategic matters which they need to address in their plans. They should also engage with their local communities and relevant bodies including Local Nature Partnerships, the Marine Management Organisation, county councils, infrastructure providers, elected Mayors and combined authorities (in cases where Mayors or combined authorities do not have plan-making powers).*
>
> *“Effective and on-going joint working between strategic policy-making authorities and relevant bodies is integral to the production of a positively prepared and justified strategy. In particular, joint working should help to determine where additional infrastructure is necessary, and whether development needs that cannot be met wholly within a particular plan area could be met elsewhere”.*

The NPPF says that strategic authorities should also make sure that their “plan policies” align with these partners and “take into account the relevant investment plans of infrastructure providers”, for example to ensure:

> *“a consistent approach is taken to planning the delivery of major infrastructure, such as major transport services/projects, utilities, waste, minerals, environmental improvement and resilience; and strategic health, education and other social infrastructure (such as hospitals, neighbourhood health facilities, universities, schools, major sports facilities and criminal justice accommodation)”*

But more widely, in our view, it is helpful if the shared vision is developed for the sub-region through a collaborative effort involving the principal local authorities, any

relevant sub-regional bodies that exist, town and parish councils (where they exist) and developers and infrastructure providers, with a leading role also for residents, anchor institutions and other employers. None of this requires waiting for Strategic Authorities to be formed or have a legal status. There are many excellent case studies of such collaboration, many of them happening under the current system in England. TRL Insight is aware of the following:

- The Greater Norwich Development Partnership – a partnership between Broadland District Council, Norwich City Council, South Norfolk Council and Norfolk County Council, which has developed the Greater Norwich Local Plan;
- Test Valley District Council's community-led masterplanning and other examples of constructive community-led planning in *Constructing Consensus* (New Local, 2024)
- Proactive planning to "improve the quantity and quality of development in the built environment" in Hamburg, Lille and Nijmegen, in *Planning as 'Market Maker'* (Royal Town Planning Institute, 2015)
- Nottinghamshire, where there are regular meetings between the planning teams in the county and district councils, in *Improving infrastructure funding and delivery*.

Such a shared vision of the sub-region should include key sites for housing and business growth, plus a mapping out of the area's infrastructure needs. The Strategic Infrastructure Plans and similar documents described in Section 2.2 are good examples of this, particularly the later ones compiled by Aecom.

Recommendations for local government:

- **Discussions between:**
    - **Upper-tier authorities,**
    - **Lower-tier authorities for that area, (where these are separate)**
    - **and where they currently exist, strategic-level authorities (GLA, Combined Authority, Combined County Combined Authority),**

  on how to:

    - **make strategic planning and local planning more inclusive – how to make it resident-led, engaging with developers, infrastructure providers, anchor institutions and other employers, and town/parish/neighbourhood/community councils, and**

- **how to ensure better alignment between strategic and local planning;**

- **Map out strategic and community infrastructure needs at the strategic and local levels, and ensure these are in conformity. Where strategic-level authorities do not currently exist, there is nothing to prevent authorities collaborating to produce Strategic Infrastructure Plans, as the authorities listed on page 27 have done. Where they do exist, we recommend these needs be mapped out clearly in one document, to supplement Spatial Development Strategies. We recommend the later Aecom reports as a model of clarity for this purpose;**

- **Find mechanisms for disseminating best practice on strategic and local planning and ensure that all relevant authorities have access to it.**

The planning process can be further improved if strategic planning sets out the basis for funding the infrastructure listed in the Strategic Infrastructure Plan or similar document and the Infrastructure Delivery Plans of the planning authorities for the area. This should include how much is expected from developers, through what mechanisms. Developers should know how much they will be expected to contribute to what infrastructure, before they submit planning applications. Local and strategic-level policies should set out the basis for charging developers, through what mechanisms. This is currently done for CIL through the system of Infrastructure Delivery Plans and Infrastructure Funding Statements, but is not widely done for Section 106. However, there are examples where it is, such as in Durham, as described in *Improving infrastructure funding and delivery*.

A barrier to this is that the purposes of both Section 106 and CIL are somewhat confused. The increased funding for affordable housing may provide an opportunity to tackle this and rationalise the developer contribution landscape a little. This increased funding may take pressure off the need for Section 106 contributions to cover affordable housing, allowing a greater proportion of this funding stream to be spent on site-specific infrastructure.

However, there will always be a need for infrastructure improvements which are not specific to individual sites, but rather arise from the cumulative impact of developments. This is the point of the CIL; hence its name of Community Infrastructure Levy is rather misleading.

Recommendations for Government:

- **Reshape CIL as "Cumulative Infrastructure Levy" and consult on how it may be made more flexible, to ensure it is viable for developers to contribute to the cumulative costs of infrastructure anywhere in the country. This may, for example, involve removing fixed percentages**

for the neighbourhood portion, to be replaced by proportions based on evidence and community consultation. It may involve giving planning authorities flexibility over the basis on which it is charged, in consultation with upper-tier and strategic-level authorities;

- **Provide clear guidance that Section 106 is intended for site-specific infrastructure and affordable housing and CIL is for cumulative infrastructure needs, and that both types of infrastructure are required for most, if not all, developments.**

- **Remove the legal restriction from borrowing against CIL.**

Recommendations for local government:

- **Ensure collaboration between planning authorities, upper-tier authorities (where these are separate), and where they currently exist strategic-level authorities, to ensure that all infrastructure needs are reflected in Infrastructure Delivery Plans and other relevant local strategies and documents;**

- **Consult with developers and with other authorities in the sub-region to create charging schedules for Section 106 as well as CIL. Be clear with developers that both types of contribution may be required for any given development. Incorporate modelling of the amounts that may be raised into strategic infrastructure planning.**

Greater clarity for developers over what infrastructure they will need to provide and to pay for, and how much they will be expected to contribute, will bring down their overheads and need for contingencies. Lower risks of overspends and delays will bring down the need to factor in high profit margins, making greater contributions to infrastructure possible.

5.2 Grant funding

The main purpose of any government, national or local, is to improve quality of life for its citizens. It raises taxes and other income to pay for public services which improve quality of life. The kind of capital investment we are looking at in this report has two benefits for central government:

- It provides direct improvements to the quality of life for citizens, by giving them places to live, work and set up businesses and high quality infrastructure;

- It provides a financial return through increasing tax receipts and reducing demand on public services (as we saw in Section 3.2) – which can then be spent on improving public services, increasing the quality of life for citizens still further.

Greater certainty over future income for local authorities could, as we have explored, hugely increase their ability to invest. We have seen how greater certainty over the retention of tax uplifts could contribute significantly to this. We have also seen how agreement over what developers will contribute at a much earlier stage of planning could increase they amount they can contribute. This would raise far smaller sums, but this could still be important for unlocking many developments.

But there will still be a role for grant funding. As *Improving infrastructure funding and delivery* puts it:

> *'Grant funding is still needed to unblock sites and bridge funding gaps.*
>
> *'The market has the tendency to replicate existing patterns of investment, in the following sense. In an area where the local economy is struggling partly as a result of poor infrastructure provision, demand for housing is likely to be low. This makes it difficult to assemble a business case for investment.*
>
> *'While reducing project risk and political risk will facilitate greater local authority borrowing and credit, there will still be cases where the barriers to growth are such that further state intervention is needed. That is, where grant funding is needed to "seed" development and "unblock" sites. There may also be other pressures requiring funding, such as when inflationary pressures and the pace or scale of developments exceed identified budgets'.*

This principle of grant funding "unblocking" sites was recognised, for example in the Housing Infrastructure Fund. Unfortunately, the period of this fund has spanned the COVID-19 pandemic and the subsequent period of very high inflation, particularly in the construction industry. As reported last year in Housing Today, the utilisation of this fund has been significantly behind what was planned. Nonetheless, this represents an injection by central government of around £1.3bn to unblock stuck sites, resulting in infrastructure improvements in many parts of the country.

Again, certainty over what funding from central government they are due to receive will help both local authorities and infrastructure providers – as will flexibility over how the funds are used. The new Government has made its intention clear to provide this certainty and flexibility, in a number of ways, which could help considerably to unlock development:

- Multi-year revenue settlements for local government;
- Capital and infrastructure budgets being fixed for even longer timescales;
- Consolidating grant streams, reducing restrictions on how they are used, and reducing the use of allocation by competition – including for local growth funding;
- 'Integrated Settlements' and 'consolidated funding pots' for Mayoral Strategic Authorities.

Following through on these should help to ensure that the government's goals of growing the economy and improving quality of life are achieved.

Greater Manchester did local government and the wider public sector a service when its negotiations for its original City Deal Proposed the 'earn back' mechanism. This explicitly acknowledged that financial benefits accrue to central government from local investment in economic growth and proposed that local government should share in these benefits. This and similar 'gainshare' proposals in other city deals have morphed over time into the current Investment Funds. These are long-term funding streams, typically for 30 years. After the first five years, there is a Gateway Review which assesses the impact on economic growth, according to requirements in the National Evaluation Framework. This determines whether the Government will release the next five years' funding. Such an assessment then occurs every five years after that.

It is reassuring that the English Devolution White Paper has confirmed that Mayoral Combined Authorities will retain the Investment Funds and that these will be included in Integrated Settlements.

Recommendations for Government:

- **Review the Housing Infrastructure Fund and identify any weaknesses. Continue to provide grant funding for infrastructure targeted at unblocking stuck sites, incorporating any learning from the review;**
- **Ensure that the 'gain share' principle continues to be recognised in the provision of the Investment Funds and that the amounts that are provided reflect this principle.**

6. The problems with property taxes and possible resolutions

So far, we have considered local taxes as they are now. In this chapter, we consider the strengths and weaknesses of this system and what can be done to improve it.

6.1 Deficiencies of business rates and council tax

There are both strengths and weaknesses of having just two local taxes, which are both property taxes.

On the plus side, they provide a stability of income for local government from one year to the next. They also tend to have low avoidance rates.

The flip side of this is that they do not reflect ability to pay, leaving taxpayers vulnerable to economic shocks, and over time, the yields are vulnerable to some of the trends discussed in Section 1.2 – particularly for business rates.

Let us consider these problems in turn. Without some form of protection, taxpayers with large assets but little disposable income (household or profit margin) would often be unable to pay their bills. These bills do not flex with the state of the economy, so taxpayers are often more stretched during economic downturns.

The Government has responded to these pressures on taxpayers in the following ways.

For council tax payers, it has constrained the rate at which the Band D council tax bill can rise – with capping, then council tax freeze grant (which reduced the availability of funding for other local government grants), then maximum rates before a referendum is needed.

For businesses, where the multiplier rises with the Consumer Prices Index by default, it has kept introducing ever more reliefs and exemptions, at nearly every Budget. This pulls money out of the BRR system, for which it then compensates local authorities with additional grants. This makes local authorities more dependent on central government for handouts – precisely one of the problems that BRR was meant to tackle, as we saw in Section 4.4. It also means that ever fewer small businesses are contributing substantially to business rate yield, so that local authorities are only receiving a significant financial benefit from larger properties.

In addition, the Government has on occasion held the multiplier increase down below CPI, when prices are rising too fast for businesses' profit margins to cope with the bill increases.

Business rate payers in the retail sector are having to cope with an additional problem: competition from online sales. Retailers who are entirely online pay no business rates, while those who need to sell entirely from large physical premises pay the highest rates. Many retailers have physical premises but also sell online; for

these, the more they can shift to online sales and downsize their premises, the higher the profit margin – and the less they contribute to local services.

This lack of a level playing field between online sales and sales from physical premises contributes to vacancy rates and the decline of the High Street, a point picked up by the Business and Skills Committee of the House of Commons as early as 2013.

It may also hasten the trend towards increasing online sales, which would exist in any case. This, together with the trend towards working from home, makes it more difficult for councils to stimulate investment in high streets and town centres. This reduces the potential rises in tax base and could make those increases more difficult to predict.

Indeed, the very notion of levying one tax on domestic property and another on non-domestic property is starting to look outdated in an era of hybrid working and increasing home-based self-employment.

For that matter, for taxes which constitute such a large part of their income, local authorities have remarkably little control over them:

- Council tax bands were fixed by government when the tax was introduced and councils have no power to vary them;
- Councils cannot increase council tax rates beyond a threshold decided annually by the Government, unless they hold a referendum, which is both prohibitively expensive, and would occur too late in the budget cycle to be feasible;
- Many business rate reliefs and exemptions are imposed nationally;
- Business rate multipliers are decided by the Government. It is possible for billing authorities to mimic the effect of a lower multiplier for a wide class of properties, by a providing proportionate discretionary relief to all of those properties. But the only way an authority can adjust them upwards is by imposing a Business Rate Supplement (BRS), which are so tightly constrained that only one has ever been imposed.

A BRS must be for a particular project for economic development which the council could not otherwise fund and cannot be more than 2p. The BRS can only be imposed if agreed in a ballot of local businesses, based on a prospectus provided by the council. Only one BRS has ever been imposed – in London, to help fund Crossrail – due to these constraints, particularly the requirement to prove that the project wouldn't happen without BRS. There was a provision for an 'infrastructure levy' very similar to a BRS in the Local Government Finance Bill 2017, but, as explained in Section 4.4, this bill was dropped when the 2017 general election was called.

It is worth noting in this context that business rates are devolved to Scotland, Wales and Northern Ireland. As explained in a 2024 House of Commons Library research briefing *Business Rates*, the multiplier is set "by the Scottish and Welsh Governments in Scotland and Wales. In Northern Ireland, both the Northern Ireland Executive and the district councils set separate rating multipliers".

6.2 Ways of broadening the local tax base and rebalancing the burden on taxpayers

It is clear that councils are heavily reliant on just these two property taxes both to recoup the costs of investment and to pay for the rising costs of providing services. With trends away from the business use of physical premises and the valuation of homes becoming ever more outdated, this is putting unreasonable pressure on bill payers and making it increasingly difficult for councils to make ends meet. Bill payers need the balance of taxes to be adjusted, while local authorities need a broader tax base.

Let us consider the reform of business taxation first. To level up the playing field between sales from physical premises and online sales, the ideal approach would be an online sales tax. WPI Economics has considered the mechanics of a local e-commerce levy for the LGA, but as online sales by their very nature are not specific to a single location, it might make more sense to make this a national tax. It would, nonetheless, help to level the playing field between online sales and those from physical premises and thereby take some heat out of the flight from the high street.

To increase the tax base for local government, perhaps a better option would be to allow for local supplements to existing national taxes, such as Corporation Tax, which is a devolved tax in Northern Ireland.

Many businesses have all of their properties in one local authority area. For the rest, there would be a question of how to apportion their taxable profits between billing authorities, but there are many ways this could be done. Perhaps the simplest would be for the supplement for each billing authority to be on the basis of that authority's share of the company's rateable value. For example, if a business had two properties, one in Bolton and one in Bury, where the rateable value of the property in Bolton was twice that of the one in Bury, then Bolton's corporation tax supplement would be based on two-thirds of the business's taxable profit and Bury's supplement would be based on one-third of it.

To ensure that this does not place an even greater tax burden on businesses with physical premises, business rates would need to be decreased by the same amount as was raised by the supplement – either at a local level, or as described below, at a national level. This would spread the burden of tax between businesses, taking the pressure off those with large premises and low profits and making the burden more based on ability to pay. It would be likely to reduce the use of business rate reliefs, ensuring business rate yield after reliefs is more closely related to total rateable value.

This principle of applying local supplements to existing national taxes can also be applied for taxation on individuals and households. For example, Scotland has a power to vary the rate of income tax and there could quite reasonably be a similar power for English local authorities. This would give them a share of the additional tax income revenue resulting from new jobs for the residents of new developments, as described in Section 3.2.

Another option is to raise a local tax from property at the moment that the value of the property is realised – the point of sale. This could be done, for example, by a supplement to capital gains tax on property or on stamp duty, although in the latter case there may be a need to reconfigure it so that it is charged to the seller rather than the purchaser. The principle here is that while a property is held, it does not usually provide an income for the owner, but once it is sold it provides a windfall. It is worth noting that the London Finance Commission recommended devolution of both of these taxes to London in its 2017 report, *Devolution: a capital idea*. It also recommended that "London should initially be assigned a modest percentage of its income tax yield to increase as and when service devolution occurs".

Beyond this, local authorities could have powers to levy bespoke local taxes and similar charges – for example a levy on overnight stays. (At the moment, such a levy can only be set up by a Business Improvement District, although this can be done in collaboration with local councils – this has happened in Manchester in the ABID zone. But local authorities do not have a route to initiate this.) Such local taxes could help authorities with specific costs that are not sufficiently realised by the needs formulae in BRR.

These are all options for broadening the local tax base. Over time, more of these options could be implemented, to provide what the LGA calls a "basket of taxes".

It is important to understand that we are not calling for an increase in the tax burden to England as a whole – rather, we are seeking a *redistribution* of the tax burden. There are two main ways in which this can happen.

First, as we touched upon for business rates, the rate of existing local tax can be lowered at the same time as the yield is raised for the new local tax, ensuring revenue neutrality at the local authority level.

The other is redistribution from national taxation to local taxation – in keeping with the Government's desire to increase the pace of devolution – through the equalisation mechanism in BRR. This is another advantage of equalising for both business rates and council tax at the same stage in the BRR calculation, as illustrated in Figure 13 and Figure 14 above. With this structure, it would be relatively simple to include deductions for other local taxes in the same manner. This could reduce the need for grant funding from central government, as has happened when the retention shares from some authorities have been increased above 50%. With less money being paid out in grant, central government would be free to cut national taxes by the same amount that they are being increased locally.

The yield from most of the local taxes listed above will fluctuate with the economic cycle. That is part of their advantage – they are easier for bill payers to afford in times of economic difficulty. They should remain a small part of the mix. This might enable local authorities to manage fluctuations with their existing financial structures, such as holding money over in reserves between years. However, it may require some new mechanisms for handling these fluctuations, possibly including borrowing on the revenue account to smooth the economic cycle, as central government currently does.

Recommendations for Government:

- **Devolve to local authorities the power to set ratios between the rates charged for council tax bands;**
- **Adopt a principle that business rates reliefs should by default be set locally; if the Government wishes to encourage councils to provide reliefs for certain purposes by providing funding, that is reasonable, but the decision should be a local one. The Government should cease introducing mandatory reliefs and new multipliers in all but exceptional circumstances, where there is a particular reason that national consistency is required;**
- **Consult with local authorities and businesses on how legislation on Business Rate Supplements may be amended, to make this tool available in practice to those authorities listed in the legislation;**
- **Begin to develop options for broadening the local tax base immediately, and commit to introducing powers by the end of the Parliament for local authorities to levy i) at least one new tax or charge on businesses or adding a local supplement to an existing business tax and ii) at least one new tax or charge on individuals/households or adding a local supplement to an existing tax on them. Focus on taxes which are based on ability to pay;**
- **Consult on how this should be achieved without increasing the overall burden of UK taxes – whether by reducing the existing local taxes or by equalising for the new tax/charge in the Business Rate Retention system and correspondingly reducing grants to local government;**
- **Work with local government to determine the appropriate mechanisms to handle fluctuations in yield from the new taxes/tax supplements/charges.**

7. Conclusions

In this report, we have viewed development as a long-term investment. It is not just the construction of houses that is needed, but whole communities, with businesses to sell goods and provide services and employment, and a range of high-quality infrastructure and public realm improvements to support all of this.

Developers, local authorities and other infrastructure providers all have their roles to play. Developers will bear the upfront costs of actually constructing buildings. They will recoup these and receive a profit on them at the point of sale.

Infrastructure costs, on the other hand, can take decades to be recouped. These costs can be considerable, both when compared with the cost of building a home and when compared with local authority income and expenditure. Updating estimates by Cebr by one year, we saw that the cost of building a home in 2023 ranged from around £267,000 in the East Midlands to around £519,000 in London. From the Strategic Infrastructure Plans of four ceremonial counties, total sub-national infrastructure costs were typically a significant fraction of this, at nearly £100,000 per dwelling. For West Northamptonshire, for the six types of infrastructure described in its IDP, the total bill for the construction needed between 2020 and 2029 was expected to run to £740m. This was 20% more than the council's entire spend on services in 2023-24; nearly two and a half times its council tax requirement.

This infrastructure is built by a range of providers. We have focused on the infrastructure provided by local authorities: roads, schools, social care facilities, leisure amenities, waste disposal sites and so forth. Much of this needs to be provided before or during the construction phase.

In theory, the borrowing that this entails can be repaid from uplifts to local taxes resulting from the new properties. We saw that typically the uplifts to both council tax and business rates would run into tens of thousands of pounds over a couple of decades. However, we encountered several impediments to the accurate prediction of these uplifts:

- The opacity and complexity of the Business Rate Retention system means that they cannot be certain that the uplifts will not be equalised away, particularly when the system is 'reset';
- A 'flight from the High Street', exacerbated by business rate bills which keep rising even through periods of economic downturn and a lack of a level playing field with online retail;
- The government controlling and constantly tinkering with the local government finance system, for example by changing business rate multipliers and reliefs, modifying NHB and setting council tax referendum thresholds.

These factors are hampering the investment in high-quality infrastructure that would allow new developments to become vibrant, modern, well-connected communities.

However, we have seen what can happen when an area is quarantined from the effects of the BRR system, in the Newcastle case study. Borrowing just £50m, together with grant funding of £70m, has allowed the council to provide the infrastructure and public realm improvements to unlock around £1bn of investment in the three areas of the ADZ. This has seen the construction of dozens of spectacular and sometimes award-winning office blocks, hotels, science buildings, accommodation blocks and other buildings.

With another round of NDDs, with no national cap on borrowing and including residential areas with infrastructure financed from uplifts to council tax, similar success could be replicated around the country.

We have made proposals to facilitate the retention of local tax uplifts, with sufficient certainty to permit borrowing against them, including:

- Ending the use of taxbase projections in setting the BRR baseline;
- Restructuring the calculation of tariffs and top-ups;
- Using NHB in a more targeted way, to provide greater top-ups for types of housing which generate smaller council tax receipts;
- Creating a fresh round of TIF agreements relating to commercial, residential and mixed areas, with the details decided through a consultation process;
- Providing more control to local government over the parameters of council tax and business rates;
- Developing options for broadening the tax base of local authorities.

Developers also provide contributions to infrastructure. We have described how the Government's proposals for Strategic Authorities provides an opportunity for a far more collaborative, sophisticated and predictive approach to infrastructure planning – although such an approach can already happen, and has done in some cases. The onus is now on local government to take this opportunity and ensure best practice is replicated across the country. Such collaborative advance planning should provide developers with the certainty they need to reduce their budget margins for delays and changes to development specifications. This would allow them to contribute more fully to the costs of infrastructure.

Again, we have made recommendations to improve the existing system of developer contributions and maximise its use and the benefits it provides.

And finally, we have seen that the Government itself receives a large financial benefit from the development of new neighbourhoods. We have made two recommendations on how it can make best use of its own money, in the form of grant funding, to stimulate such development.

TRL Insight believes that if the recommendations in this report are implemented, and the opportunities provided by the current Government are seized, the true potential of local authority capital investment could be unlocked and economic growth could be kickstarted in on a far greater scale.

Appendix – Relevant major policy documents under the new government

Publication	Policies that are most relevant to this report
Reforms to the National Planning Policy Framework	Consultation ran 30 July to 24 September, outcome published 12 December. • Reversing the changes made in December 2023, to make using a 'standard method' mandatory again, accompanied by spreadsheet of local housing need for each planning authority, based on revised 'standard method' • Setting out procedure for moving to new housing need figures for Local Plans at different stages of preparation. • Setting out areas in which strategic planning is important – see Section 1.3. • Announcing 'intention to move to a model of universal strategic planning covering functional economic areas' within this Parliament, formalised in legislation. It would support elected Mayors in developing and agreeing Spatial Development Strategies (SDSs) and explore ways of extending these outside mayoral areas, to get universal coverage. • Setting out shorter-term measures to improve planning collaboration and cooperation between authorities and speed up the development of SDSs in mayoral areas. • Reducing fixed percentages of affordable housing stated in NPPF (other than Green Belt), but requiring needs assessments to consider need for social rent and requiring planning policies to specify a minimum proportion of social rent homes. • Inserting a new paragraph about the benefits of mixed tenure sites – see Section 1.3. • Stating an intention to introduce new measures in 2025, including setting a site size threshold above which sites must deliver a mix of tenures, and considering further steps which would support social and affordable housing (including rural affordable housing and 'rural exception sites'). • Percentage targets for affordable housing on land released from the Green Belt for residential development (using a 'policy plus' approach, with an appropriate proportion being social rent, subject to viability). • Amending the definition of affordable housing in the glossary. • Changes to the way community-led development is handled in the NPPF. • Announcing further consideration of how to improve policy on small site development. • Implementing existing legislative provisions which require developers to notify planning authorities of commencement and progress, and allowing planning authorities to decline applications from developers who previously progressed too slowly. • Further emphasis on the importance of "public service infrastructure" – see Section 1.3. • Inserting wording to promote a move from 'predict and provide' transport planning to 'vision led' transport planning.

	• Changing the criteria under which the Government can intervene when planning authorities are not progressing sufficiently with Local Plans. • Significant changes to the planning fee regime.

Autumn Budget & related documents	• Fiscal planning in two stages: "Phase 1" culminating in Budget, incorporating one-year spending round; "Phase 2" to culminate in longer-term spending review in late Spring 2025
	• A new fiscal framework: changes to the regulatory structure and two new fiscal rules. These rules are summarised Section 1.3 and explained more fully in Section 4.6.
	• Fiscal aggregates for the period 2024-25 to 2029-30 and expenditure limits for individual departments in 2025-26.
	• A £500m increase (19%) in the Affordable Homes Programme budget in 2025-26. £3bn loan guarantees to small- and medium-sized developers and Build to Rent. Further investment for at least whole of Parliament to be announced in/by Spending Review 2025 – will cover all tenures but focus on social rented.
	• Full retention of Right to Buy receipts – see Section 1.3 for more details.
	• The enhanced business rates retention arrangements in Cornwall, Liverpool City Region and the West of England (100%) and for the Greater London Authority (GLA) (67%) will be extended into 2025-26.
	• The small business multiplier will be frozen in 2025-25 and there will be a relief for retail, hospitality and leisure (RHL) properties. From 2026-27, this support will be replaced by permanently lower business rates multipliers for high street RHL properties, funded through a higher multiplier for the most valuable properties. Charitable relief will be removed from most private schools.
	• Increased capital grant funding was announced for schools, colleges, children's homes and health facilities.
	• Three Mayoral Combined Authorities (MCAs) will receive borrowing powers and two others will receive integrated settlements from 2026-27. This will also be "explored" for the GLA.
	• The funding quantum was announced for the Warm Homes Plan.
	• Investment was announced in particular items of infrastructure for specific locations.
	• Various documents were published alongside the Budget, including:
	    o A consultation on reforms to business rates. Amongst these possible reforms is a statement that the Government will "explore" whether the adjustment to the multiplier is at the time of revaluation "creates sub-optimal outcomes". The rest of the potential reforms are outside the scope of this report;
	    o The outcome of a consultation on sharing information on business rate valuations;
	    o A "Corporate Tax Roadmap" setting out the Government's plans for corporation tax and a few other taxes over the course of the parliament;
	    o Details of the integrated settlements for the MCAs;

	○ A consultation on future social housing rent policy.
Local Government Finance Policy Statement	• This set out the timetable for the reset of the BRR system and some of the details of it. • It asked local authorities "to come together within sensible economic geographies to deliver that growth through combined authorities", described new bodies for the CAs to interface with the Government and set out that the English Devolution White Paper (see below) would make it easier to form CAs and "deepen the powers available to them". • It set out council tax referendum principles for 2025-26. • It stated that the Government would be providing an additional £450 million to councils through the Local Authority Housing Fund, "allowing them to grow their housing stock".
Plan for Change	• This sets out what the Government is doing to provide "Strong Foundations" and then explains its five 'missions', setting 'milestones' for them: ○ Kickstarting Economic Growth ○ An NHS Fit for the Future ○ Safer Streets ○ Break Down Barriers to Opportunity ○ Making Britain a Clean Energy Superpower • Local capital investment contributes to all of these missions, as explained in Section 1.1. • In particular, the Kickstarting Economic Growth Mission states: *"Affordability of housing has fallen drastically as too few houses have been built, particularly in major cities. The government will deliver housing of every tenure in the right places, supporting our towns and cities to grow, and providing the homes people want near to businesses and employment opportunities.* *"We will make it easier to build vital infrastructure such as roads, railways, broadband connections and laboratories needed for a modern economy to thrive."* • This boost in new homes must "deliver for aspiring owners and renters, and provide secure, affordable and quality housing."
English Devolution White Paper	• Proposes creation of legal concept of 'Strategic Authorities'; three levels of these, with seven areas of competence proposed – see Section 1.3. • Strategic Authorities required to produce SDSs – used to allocate housing growth and enable areas to identify infrastructure and strategic locations for development – see Section 1.3. • The Government expects "that the authorities producing SDSs will be able to encourage the pooling of resources and prioritising of efforts across their constituent authorities to meet housing need", and "high levels of collaboration to be demonstrated between the Strategic or upper-tier local authorities who are responsible for the SDSs and local planning authorities in the area. There will be a formal duty for responsible authorities to consult district councils on the development of the SDS and a route for district councils to raise concerns with the planning inspectorate".

	• There will be powers for the Government to intervene when SDSs are "not forthcoming to the timeframe". • All Mayoral Strategic Authorities will also need to produce a Local Growth Plan – a new concept – "setting out a long-term vision for growth in their region over the next decade and a roadmap for how this can be achieved". They will become responsible for "strategically planning for housing growth". • Strategic Authorities will have elements of control over affordable housing in partnership with Homes England; the level of control over these programmes is higher for Mayoral Strategic Authorities and particularly for Established Mayoral Strategic Authorities – see Section 1.3 for details. • The White Paper promises greater control over affordable housing for Strategic Authorities, as set out in Section 1.3. • 'Integrated Settlements' for Established Mayoral Strategic Authorities, funding determined at each Spending Review by formulae, on the basis of their functional responsibilities. Other Mayoral Strategic Authorities will have "consolidated funding pots covering: local growth, place, housing, and regeneration; non-apprenticeship adult skills; and transport" following the 2025 Spending Review. They will also retain their existing 30-year investment funds, and powers to raise a mayoral precept will be extended to cover the full range of their functions. • After a transition period to build the capacity and demonstrate a track record of delivering retrofit, (at least) three ongoing schemes for warmer homes and greener buildings will become part of the Integrated Settlements for Established Mayoral Strategic Authorities, by 2028 at latest. • Foundation Strategic Authorities "will set out a vision for growth in their area, building on existing local economic strategies where these exist. As they become Mayoral Strategic Authorities, taking on additional powers, functions and funding, they will be required to update these to produce full Local Growth Plans". They will have dedicated local growth allocations determined by formulae, with "lighter-touch investment sign-off". • Key Non-Departmental Public Bodies and Arm's Length Bodies must have appropriate regard to relevant Strategic Authority strategies and shared growth priorities – see Section 1.3. • The Government "recognises the unique strategic role that Strategic Authorities can play in planning our future energy system by operating across functional economic areas". The National Energy System Operator "will engage with them as it develops Regional Energy Strategic Plans and provide a transparent route for local insights to inform energy system planning". • Great British Energy will work with local government to support the roll out of local small to medium renewable energy projects, with an aim of up to 8GW of extra power by 2030, and to "help Strategic and Local Authorities to build their own pipelines of successful projects".

	• Zoning coordinators within Strategic Authorities will be able to designate areas as heat network zones, under the Government's existing policy of creating heat zones (zones where heat networks are expected to offer the lowest-cost solution for decarbonising heat).
	• Further powers for county councils and combined authorities over Local Nature Recovery Strategies and exploring with Strategic Authorities further opportunities for devolution on issues like water management, the circular economy, pollution, or flood resilience.
	• Strategic Authorities and Local Transport Authorities to be given specified additional powers on highways. "A statutory role for Mayors in governing, managing, planning, and developing the rail network", with the potential for greater control over local stations and further rail devolution.
	• Mayors outside London to be given power to impose a Mayoral Community Infrastructure Levy – see Section 1.3.
	• Measures to help Mayoral Strategic Authorities boost business growth, including:
	    ○ The Department for Business and Trade engaging these authorities in shaping a Small Business Strategy which the Government will publish next year
	    ○ Bilateral forums between the Department for Business and Trade and Mayoral Strategic Authorities, ensuring effective delivery of interventions, including those to boost the growth of businesses, cooperatives and mutuals and to encourage inward investment.
	• Additional powers for local authorities and communities to take over vacant premises.
	• Committing the Government to "periodic redistribution across the country" of "accumulated business rates growth … through a business rates reset" and building on the reform proposals in the Fair Funding Review. Increasing the proportion of business rates retained locally in some areas. As part of this reform, considering "how a new model of business rate retention could better and more consistently support Strategic Authorities to drive growth".
	• Establishing the National Wealth Fund. The White Paper describes how it will work with mayors, other local leaders and devolved governments and will have "increased resources in both its Local Authority and Banking and Investments teams". It is described in Section 4.2.

Provisional local government finance settlement 2025-26 & related documents	• Most of this related to revenue funding and the 2025-26 settlement for local government. • However, alongside it, a consultation *Local authority funding reform: objectives and principles* was issued, as described elsewhere in this report.