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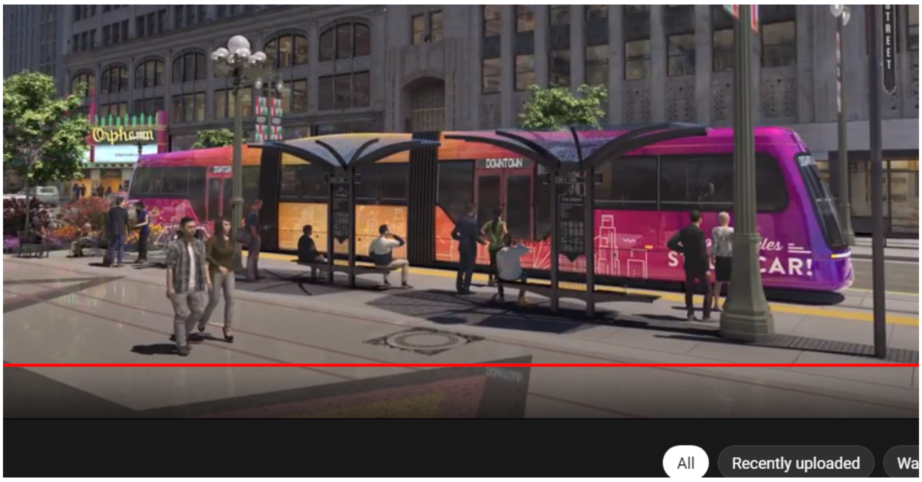
Article on infrastructure funding worth exploring for trams



Anthony Browne is the MP for South Cambridgeshire.

The beautifully modernistic Northern Line extension down to Battersea Power Station, the first expansion of the tube system for decades, has just opened its doors. It has also opened up a long-derelict area of London, which is now heaving with people and humming with businesses. But the scheme, which I helped start in Boris Johnson's first term as Mayor of London, is much more than just a new tube line extension: it is a new way of funding projects which could unleash infrastructure building across the country and help level up Britain.

The Treasury didn't want to pay the £600 million – £1 billion cost of the line extension, and so the Mayor asked me, as his head of economic development, to come up with other ways of funding it. The solution was Tax Increment Financing (TIF), a way of funding infrastructure that is highly successful in the US but was untried in the UK. The basic premise is that when the government invests in infrastructure, it stimulates future economic activity, whose value can be estimated and captured in advance to pay for the building of the infrastructure in the first place. The beauty of TIF is that it does not require any increase in tax rates, or any funding from existing taxpayers. In the case of the Northern Line extension, it is largely paid for by increases in payments of Business Rates above what was historically being paid in a defined area around the station for the next 25 years. Previously, virtually no Business Rates were being paid, but now the area is developed, the money is pouring in. HMT giving that future income stream to Transport for London (TfL) enabled TfL to borrow the £1 billion needed to build the new line, without recourse to any taxpayers funds. It is also part-funded by developer contributions, but developers could never have funded the entire amount.

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The Treasury started out highly sceptical and took a lot of convincing. I formed alliances with international advocates of TIF, as well as UK ones such as the British Property Federation. I got City Hall officials to write a paper on it, wrote articles about it, spoke about it at economic development conferences, and drafted a letter that Boris sent to the Chancellor. I met David Gauke and Philip Hammond about it when they were shadow ministers and got them onside. Then when the Conservative Government was elected in 2010, I convened and chaired scoping negotiations in the bowels of City Hall with officials from the Greater London Authority, Transport for London, and the Treasury. This was the age of austerity, and the UK had never done anything like this before, but one Treasury official accepted that "austerity is the mother of invention."

But it soon became clear that the real obstacle was Treasury officialdom itself. They are – rightly – cautious about doing new things. They are experts in saying no. They kept coming up with different reasons why they couldn't accept the funding model for the Northern Line Extension, from the competence of the TfL finance department (really?) to the deadweight costs (they would get this tax anyway). I was aided by the economist, Bridget Rosewell, who we employed as head of GLA Economics, and who is one of the UK's top infrastructure economists. We bashed back the arguments one by one, pointing out, for example, that this prime central London real estate had been derelict for decades because of poor transport links, and without those transport links there would continue to be few businesses there to pay the Treasury any tax. The HMT's official opposition to TIF started looking plain unreasonable.

Eventually HMT gave the go ahead. More than a decade after those meetings, the Northern Line Extension is running, opening up a whole new once-derelict area of London, and a new way of funding infrastructure. Last week, the Economist magazine sung the praises of the way the scheme was financed.

There are many reasons why Tax Increment Financing has taken off in the US, but not the UK. Most notable is the almost total centralisation of taxation in the UK which means that such schemes can only go ahead if each project is approved by a highly sceptical Treasury. In the US, states and cities control much more of their own taxation, and so are free to approve these schemes – and there are thousands of them. Most are far smaller, for example, funding a new bridge or turning a car park into a public garden, boosting property values (and tax payments) from the homes around.

But now that HMT has broken the TIF ice, hopefully we can make some real headway. HMT should produce a standardised framework for TIF schemes, so local authorities and major developers can promote them. It should widen the tax base that can be used, from business rates to, at least, stamp duty. It needs to set up a joint centre of excellence with the Department of Levelling Up, Housing and Communities, to help assess and approve the schemes.

If Britain can embrace TIF, it would open the door to funding regeneration projects across the most deprived parts of the country where the tax increase from those regeneration projects would be most pronounced. And it would enable us to do that without increasing the budget deficit. As Michael Gove and Rishi Sunak work out how to level up the country without busting the bank, having a strong TIF regime should be near the top of their in-tray.

Courtesy : www.ConnectedCities.co.uk