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Development



TOD and VCF

Experiences from the UK

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“Then, as the millennium was dawning, a miracle happened. The government returned every penny that I had paid in taxes over the previous 40 years. So for four decades I had lived tax free – and I had not dodged the taxman! How was this possible?

I ‘confessed’ in ‘Taken for a Ride’. Taxpayers generously funded the extension to the Jubilee Line, one of London’s Underground lines. Two of the stations were located close to office properties that I own. Those two stations raised the value of my properties by more than all the taxes that I had paid into the public’s coffers over the previous 40 years.”

Don Riley



India has considerable experience with TOD-VCF

- Mohenjo-Daro!
- Traditionally, Indian States have used Land Value Tax, Charge for Regularization of Land Unauthorized Development, Tax on Conversion of Land Use and Town Planning Scheme as a measure of Value Capture Finance
- Mumbai Metropolitan Regional Development Authority (MMRDA) charges 100% premium for development of properties on either side of the metro route up to 500 metres as part of the Metro Project
- Kolkata Metropolitan Development Authority (KMDA) auctioned off 4,840 acres of land to DLF at INR. 2,713 crores as part of Dankuni Township Project
- The Greater Hyderabad Municipal Corporation (GHMC) imposes a tax of 0.5% of the registration value of the land if not used exclusively for agriculture purpose or is vacant without a building
- Relevance of VCF tools varies with different implementation conditions / contexts. VCF tools need to be supported with robust institutional processes and systems. Some of the major challenges w.r.t implementation of VCF tools are (a) unestablished land market, (b) lack of land use controls, (c) improper land records, (d) insecure property rights, and (e) limited devolution of fiscal powers.



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Canary Wharf, London

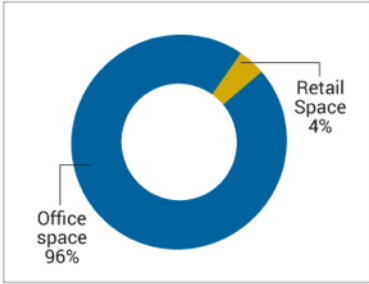




Canary Wharf, London



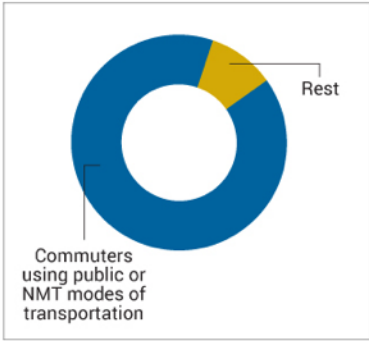
Composition of floor space uses



Urban form

35 office buildings offering
1,580,000 sq.m of floor space
Building range from 12 to 50 storeys
Floor Area Ratio : 5.1
Green roof surface : 9,000 sq.m

Proportion of commuters using public or NMT modes of transportation



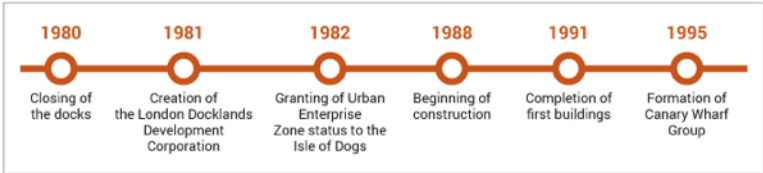
Employment

Employment capacity : 105,000
Gross employment density : 2700 job per ha

Sustainability

100% of power supply from renewable energies
75% recycling of all office and retail waste

Project Timeline





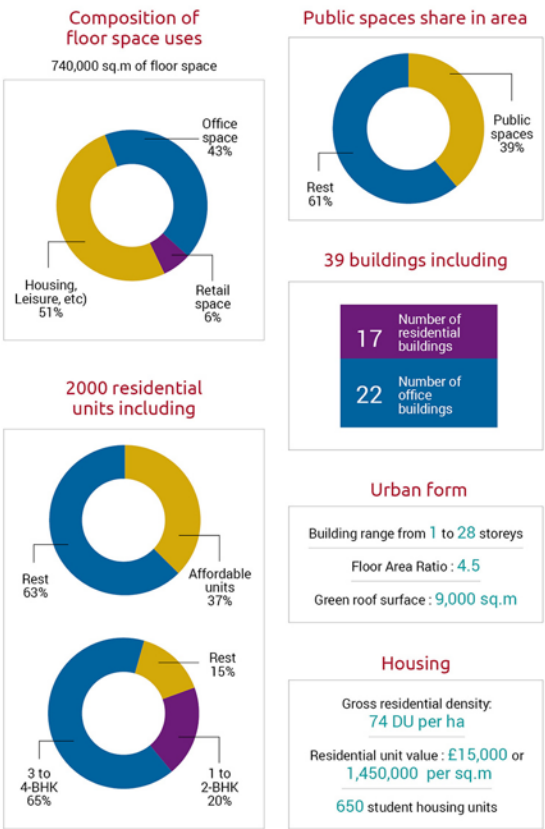
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King's Cross, London





King's Cross, London





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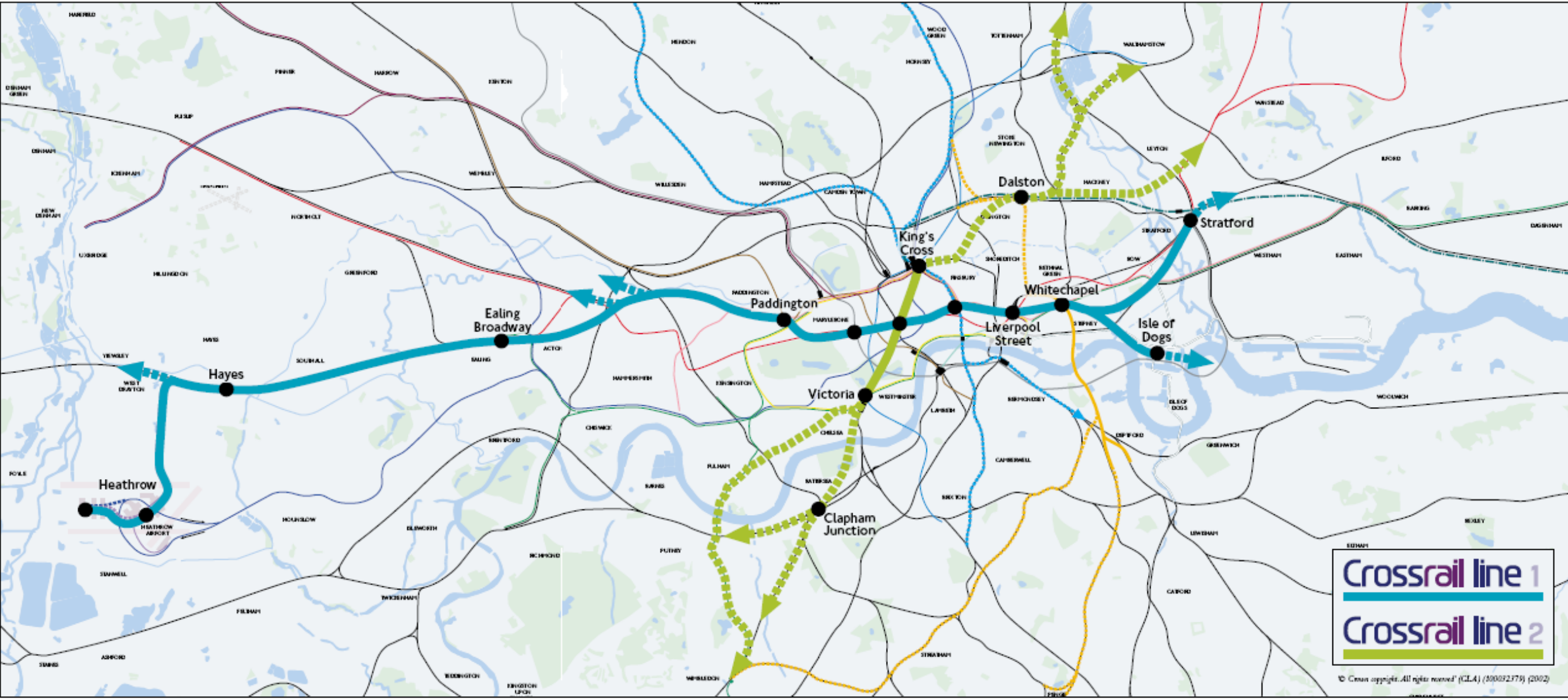


King's Cross, London





London Cross Rail





Cross Rail (Elizabeth Line), 2007 onwards

- One of the most complex and challenging infrastructure projects undertaken in the UK. Construction is now in its final stages.
- Key elements of the £14.8 billion funding envelope:
- The Mayor of London, through Transport for London (TfL) and the Greater London Authority (GLA), is responsible for £7.1 billion of funding. This is made-up of:
 - £1.9 billion contribution from Transport for London
 - £4.1 billion from the Crossrail Business Rate Supplement
 - £600 million from developer contributions (Mayoral Community Infrastructure Levy and Section 106)
 - Around £500 million from over-site development opportunities
- The UK Government has provided a grant of £4.9 billion.
- Additional contributions from Canary Wharf Group, Heathrow, City of London Corporation and Berkeley Homes.
- £2.3 billion is being spent on upgrading the national infrastructure to the east and west of the central tunnelled section. This work is being financed and delivered by Network Rail.



Understanding VCF

Principle

- Recovering a share of the increment in land valuation due to the positive externalities created from actions other than the land owner's investments.
- Positive externality is internalized by converting them into public revenue.
- Beneficiaries Pay-Communities benefitting from public investments on infrastructure.

Use

- Revenue Generation tool to finance infrastructure projects.
- Appropriation of value using public sector intervention.



Components

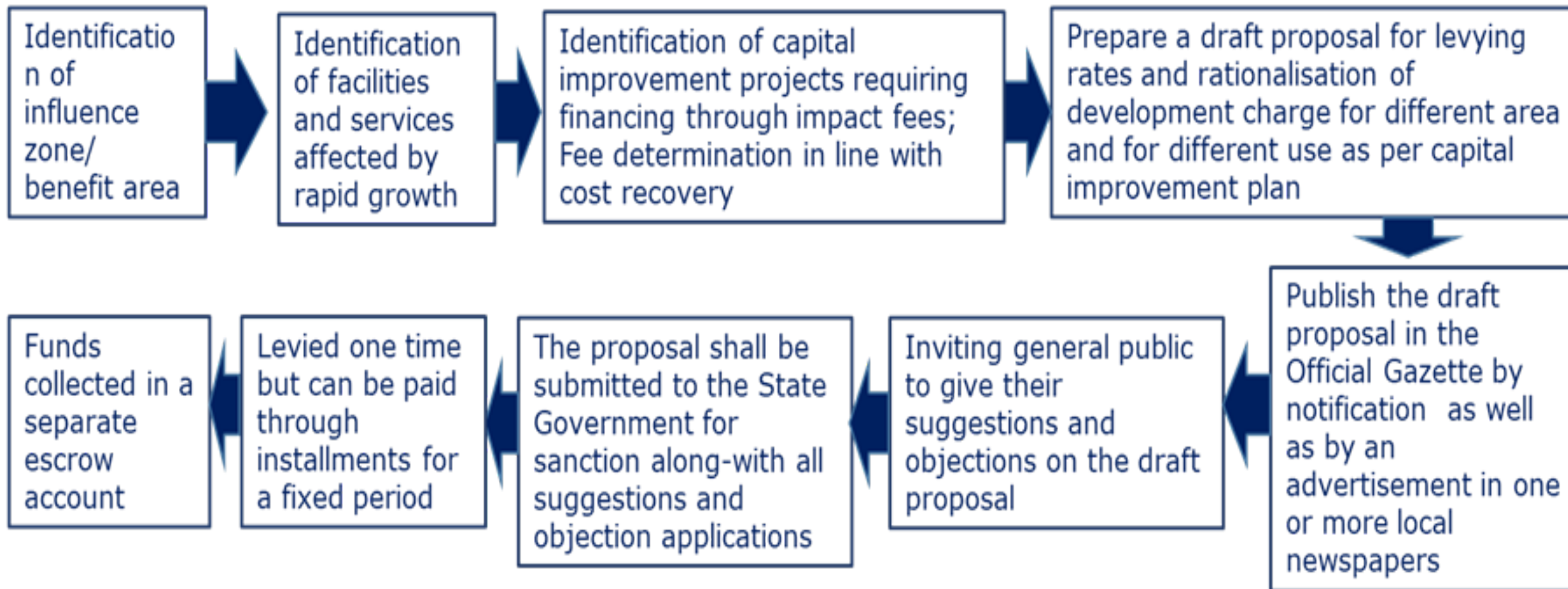
- Land Development and Land Auction
- Tax on Conversion of land use
- Betterment Levy
- Transfer of Development Rights
- Town Planning Schemes
- Air Rights
- Charges for Regularization of Unauthorized Development
- F.A.R. Sale
- Land Value Tax
- Impact fee
- Tax Increment Financing

Advantages

- Opportunity to launch new projects even with a small resource base
- Stabilizes property prices by discouraging speculative investments
- Helps mobilization of resources



Process of levying Impact Fee in India





Why should land value capture be used to fund public transport projects?

- **The Core Economic Argument**
 - **The equity argument**
 - **The fairness argument**
 - **The efficiency argument**
- **The project selection and delivery argument**
 - **The devolution argument**



Public Purpose

- In UK, rare for the infrastructure manager to own significant non-rail-related assets, even if these are constructed as part of schemes. Network Rail – and its predecessor, British Rail – tend to sell off associated land development. In 2019, sold the commercial space under railway arches.
- Contrast with many Asian railways:
 - MTR Corporation in Hong Kong (rail + housing)
 - Hankyu Corporation in Japan (70% of revenues from land development, retail and entertainment).
- Over Site Developments (OSDs) important in station schemes as a means of supporting the business case and potentially providing a funding source.
 - Concept not new: Charing Cross, Canon Street and London Bridge (with London's tallest building, the Shard) contain office blocks above stations. The block or a 'deck' sold to a developer.
 - The concept also extends to Adjacent Side Developments, potentially using land that was previously needed for construction of the railway element.



Public Purpose (continued)

- Increased User fees (fare box collections) from more passengers do make their way back to the government.
- The Heathrow Express is a good example of a service that was built and operated without public money by Heathrow Airport, albeit with famously expensive fares.
- On the contrary, the M6 Toll (non-rail scheme) is a good example of a project that failed to meet traffic (and therefore revenue) expectations.
- Tax Incremental Financing is used in a number of areas. In Croydon, Croydon Growth Zone projects include the Dingwall Loop of the Croydon Tramlink, and the West Croydon Station redevelopment.

High Speed Rail (London - West Midlands) Bill, 2013

- The Bill grants the powers to construct Phase One of the HS2 network, but also grant powers to:
 - build and maintain HS2 and its associated works
 - compulsorily acquire interests in the land required
 - affect or change rights of way, including the stopping-up or diversion of highways and waterways (permanently or temporarily)
 - modify infrastructure belonging to statutory undertakers (e.g. utility companies)
 - carry out work on listed buildings and demolish buildings in conservation areas; and
 - carry out protective works to buildings and third-party infrastructure.
- It also grants the necessary changes to existing legislation to facilitate construction and operation of Phase One of HS2.



Government Property Agency (GPA)

- Government Property Function is overseen by the Office of Government Property (OGP)
 - Will deliver public services that are more accessible and responsive to citizens' needs
 - Will bring together property and socio-economic data to co-locate these services where they are most needed
- aligns with the aims of the Government's Industrial Strategy: to have prosperous communities throughout the UK by supporting the creation of jobs, the regeneration of our towns and cities, and the release of surplus land for new homes.
 - removing artificial boundaries between departments, local authorities and other public bodies
 - working in ways that minimise our need for office space;
 - using what we have more efficiently; and disposing of surplus to maximise receipts, boost growth and create new homes.



(Not losing sight of) The General Principles

- Due diligence: evidence-based planning
- Design Matters
- Fair and equal partnership
- “Hope value”
- Sharing of risk
- Distribution of responsibility and gain
- Independence of the regulator and importance of robust and sustainable institutional mechanisms to avoid obsolescence



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THANK YOU FOR YOUR ATTENTION

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