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 Planning Solutions



Publicly funded construction - can TIF ease the pain of losing RDAs?

The daily bombardment of gloomy economic news may lead to a belief that new development on anything approaching a grand scale is simply a pipe dream. However, buildings will continue to age, and dilapidated areas will continue to need redevelopment.

Despite the winding down of regional development agencies, it is expected that the public sector will continue to retain an important role in providing the impetus to kick-start this redevelopment. However, given the concern over public debt, caution must be exercised to ensure that the impetus to kick-start does not cross the line into carrying the burden.

With the coalition Government's localisation agenda, local authorities can hope for greater powers to drive regeneration in their area. One of the proposed methods of doing so is by the use of Tax Increment Financing (TIF).

What is TIF?

TIF is not a new idea, having its origins 50 years ago in the United States. It relies on the concept that once an area is transformed from run down and dilapidated to shiny and new, with all the facilities any 21st century multinational could hope for, then increased tax revenues will result from an influx of private sector investment.

The intended developer is allowed to retain local tax revenues over a long term period. They can borrow against the uplift created by regeneration or development, the increase in income being ring fenced in order to repay the initial borrowing. This is different to previous programmes, such as Enterprise Zones (EZs), which encouraged the spending of existing capital by removing tax and administrative burdens. With TIF, where capital investment is required and funds aren't available, they can be raised by effectively using future tax income as security against borrowing.

While EZs were undoubtedly successful, TIFs have the advantage of allowing tax revenues to be retained where revenues exceed the level required to pay back borrowing, whereas EZs effectively 'lost' the tax revenue by granting tax allowances of 100 per cent. The Core Cities Group, a network of eight regional cities, first mooted the idea as beneficial in a joint report with PwC in 2008 (['Unlocking City Growth'](#)).

When will this happen?

On 20 September 2010, Deputy Prime Minister Nick Clegg announced to the Liberal Democrat conference that TIF would be introduced in England to aid in "breathing life back into our greatest cities". On 28 October 2010, a White Paper was issued consulting on measures to encourage growth, including TIF ('[Local growth: realising everyone's potential](#)').

This White Paper does not set out the practicalities of how TIF will work. Instead, it sets out to consult with stakeholders, seeking their views on how this policy can be developed.

The White Paper does, however, make clear a few important points:

- Legislation will be required to introduce this policy. This suggests a timescale of 18 months to 2 years before the initiative becomes a reality.
- Local authorities will continue to be expected to comply with the prudential borrowing code.
- That the availability of TIF will (at least initially) be centred on a bid-based process.

What are the risks?

This idea has existed and been put into practice elsewhere for decades. However, the economic climate in the UK has created a situation which many (and most crucially central Government) view as ideal for the introduction of TIF. However, we have found that concerns do remain. It has been suggested that regenerating one area simply draws investment away from another. Of course, this is true of any regeneration of a physical area. When the Core Cities Group originally proposed the use of TIF, they suggested it should be employed in relation to a clearly defined physical area with a common infrastructure requirement. This would provide the greatest focus to the benefits.

This funding model is most appropriate when renovating existing infrastructure or providing new infrastructure. If the intended development or regeneration does not require significant initial outlay, there should be no need for a local authority or any other public body to go out on a limb to raise capital - and they will be out on a limb, taking a risk that tax revenues do not rise as projected and leaving unfunded repayments to the lender.



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With the current concept of TIF, it is not clear what the situation would be should a local authority not be able to fund the repayments on TIF which has not had the desired effect. Would central Government stand as guarantor? This seems counter-intuitive given the aim of reducing the burden on the public purse.

It is therefore crucial that careful consideration is given to the viability of TIF. Given the right circumstances, TIF could amount to be an important stimulus to local economies. If successful, development or regeneration will raise tax revenues to a level that not only repays the initial borrowing, but also provides a surplus that can be reinvested in services.

To reduce the risk of local authorities entering into unsuccessful TIF arrangements, it has been suggested that TIF should be extended to the private sector. Developers could then enter into a TIF arrangement, and would take the risk of tax revenues not rising as expected. It is argued that private sector developers should be given the opportunity to scout out the opportunities and take the risk, with profit at the end of the project being their incentive.

TIFs in action

Cuts in the budget provided to Scotland by Westminster have already led to a project to redevelop Leith waterfront being given the go-ahead to utilise TIF by the Scottish Parliament. Needing to fix creaking infrastructure, City of Edinburgh Council hopes to borrow £84m, which it hopes will finance a development which it suggests "has the potential to unlock" £660m of private investment and create 4,900 jobs.

This particular project avoids some of the concerns already mentioned, as the area is easily delineated geographically so tax revenues are simpler to ring fence. In addition, the fact the redevelopment is occurring around a port will (it is hoped) attract international investment - alleviating concerns about simply displacing investment from elsewhere.

We hope you find this an informative read, if you require any further information please do not hesitate to contact:

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