

Tax Incremental Financing Review of Approach to Date

April 2013



Introduction

Scottish Futures Trust (SFT) and Scottish Government have been working closely, alongside a number of local authorities, on the development of Tax Incremental Financing (TIF) in Scotland. TIF allows Local Authorities to capture locally generated, incremental Non-Domestic Rate (NDR) revenue from private development that has arisen as a direct result of their public sector investment in 'unlocking' or 'enabling' infrastructure.

The captured NDR revenue is then used to repay the debt raised to finance the public sector infrastructure investment. Scottish Ministers have agreed to allow up to six local authorities to use the TIF model under the pilot administration scheme. Further information on TIF can be found in the SFT Draft TIF Guidance document on the [SFT website](#).

This paper should also be read in conjunction with the guidance document as it provides details in relation to the terminology and principles of TIF.

In its 2012/13 Business Plan, SFT committed to identifying lessons learnt from the TIF Pilot Scheme. To this end, SFT has liaised with TIF stakeholders to identify the key lessons learnt to date.

Of the 6 pilot projects, 3 TIF projects currently have approval, either full or in principle (1 of which is on site), and a further 3 projects are at various stages of development in terms of progressing and submitting TIF Business Cases. Given where the TIF model is in its lifecycle, this paper presents interim lessons learnt from primarily the business case and approval process and as such will focus on the more practical aspects of these elements of TIF.

The emphasis is, therefore, on lessons arising from the scoping of the projects through to compilation of the TIF business case, and its approval, and the outline mechanics of the capture mechanism.

It is SFT's view that a further Lesson Learnt paper will be required once the pilot projects have advanced and been approved and more have commenced work on site. This subsequent paper will focus on the practical application of TIF once a project moves into the construction phase and will test the workings of the TIF capture mechanism.

Engagement

In producing this paper, SFT has liaised with the following key TIF stakeholders in order to collate feedback on each party's experience of the TIF pilot process to date:

- Argyll & Bute Council
- Aberdeen City Council
- City of Edinburgh Council
- Falkirk Council
- Fife Council
- Glasgow City Council
- North Lanarkshire Council
- Scottish Government
- Scottish Futures Trust

This document provides a summary of the overall key issues identified.

Focus of review

SFT, during the engagement phase, asked a series of questions of each TIF Stakeholder, as they related to that particular stakeholder's experience and project (bearing in mind that different projects are at different stages in the process and stakeholders have a variety of roles relating to TIF). The topics covered included:

- Enabling Assets (Prioritisation & selection process)
- Red-Line-Area
- State Aid (Approach & engagement)
- Key risks (Identification & management)
- Financing
- Economic Impact Assessment
- Business Case (Development & structure)
- Capture Mechanism (Understanding/ agreement of NDR baseline)
- Private Sector Engagement
- Engagement with SFT (SFT's role and interaction)
- Approval Process

The overall messages from the lessons learnt review was that TIF can be a key tool for local authorities in delivering economic growth and regeneration. It was also noted that the general overriding view of TIF and the development and approval process undertaken to date is positive.

Key findings

Following the completion of the review, the key themes that have emerged are:

- **TIF Assets**
 - It is important to look carefully at the impact and deliverability of the individual TIF assets and the overall prioritised TIF infrastructure package to enable a robust case to be developed.
 - State Aid issues should be considered during the earlier stages of the process.
 - Greater certainty as regards the TIF assets and their development, and the related funding gap and / or co-funding sources, is desirable. This in turn streamlines and accelerates the business case development process and allows greater clarity during the approval process.
 - Ultimately, it is recognised that TIF projects are undertaken in complex project environments, and therefore a number of factors need to be considered, managed and mitigated, with appropriate action taken where necessary, to ensure projects advance and succeed.
 - Local Authorities should ensure that there is ongoing council and political support for the project and if there are any changes to this position, the potential impact on project deliverability should be assessed immediately.
- **Red-Line Area**
 - There is a key linkage, as outlined in the guidance, between the redline and where the growth and economic impacts of the TIF are felt within a local authority region.
 - The geographic spread of a redline will need to be considered on a case by case basis, to accommodate variances in a number of factors specific to each project such as rural/urban context, existing development, and the overall spread, mix and impact of the enabling infrastructure.

- **Roles & Responsibilities/ Governance**

- Greater clarity would be helpful for Local Authorities in terms of the relative roles of SFT and SG (to avoid duplication of process).
- Governance arrangements which cover the project development phase of TIF (i.e. the establishment of a project board with representation from the Local Authority, SFT and SG) would be of benefit and streamline the approval phase

- **Displacement**

- It is generally felt that the process to agree the single TIF displacement figure is cumbersome, and that a more streamlined process would have accelerated the development of the business case.

- **Private sector**

- Early engagement with private developers is crucial and agreements should be formalised, where possible.
- A more focused approach to the commercial nature of TIF proposals and the impact of delays on private partners from the public sector would have been beneficial.

- **Project Ownership**

- Local Authorities should be clear from the outset that TIF is a Local Authority led model and as such it should take clear ownership of the business case and project management.

Conclusion

SFT and its partners have been instrumental in developing TIF and making it a reality. Ultimately, the TIF model enables a significant level of public sector infrastructure investment to take place, which would not otherwise be the case. Essentially the model is an important tool for Local Authorities to deliver regeneration and growth in their area, particularly in the current economic climate.

A further lessons learnt paper is envisaged at a later point in the TIF Pilot Administration process, which will reflect stakeholders' experiences of the TIF model as it moves into the delivery phase of development.

If a Local Authority, or another interested party, has any questions relating to this paper or to the TIF Model in general please contact one of the following members of SFT's TIF team:

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