

Self-financing regeneration? The case for TIF

BBP Regeneration Bulletin
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Key Points

- The recession has brought an end to the long boom in property investment that took place during the last decade and which has underpinned our approach to regeneration.
- Cuts to government spending will result in less funding for the infrastructure that is needed to improve the viability of marginal development sites.
- Tax increment financing (TIF) offers a way for the future value of a scheme to be used to help provide the upfront investment needed to develop a site.
- With a considered approach, local authorities and delivery vehicles working together could use their assets and ability to borrow prudentially to drive forward regeneration and economic growth for their communities.

Background

A buoyant national economy and high levels of public expenditure have led to much successful regeneration in the UK over the last 10 years. The impact of the recession has been dramatic, resulting in long awaited projects being shelved or cancelled. In response, there have been calls for a different approach to regeneration, accepting that the private sector will have limited capacity to carry the risks it has in the past.

This presents the opportunity to develop more sustainable approaches to regeneration and encourage longer term thinking, and most of all for local authorities to use their resources differently to attract investment and deliver projects.

Government Action

In looking to the future the Government announced in the 2009 Budget that it would explore the feasibility of introducing the Tax Increment Financing (TIF) model in the UK to support long term regeneration projects.

The Department of Communities and Local Government (CLG) has since called on local authorities to submit projects that may benefit from using the model and has received over 120 bids from 80 authorities and other public bodies.

What is TIF?

The TIF model works by allowing a local authority to fund new infrastructure by borrowing against the anticipated future increases in tax revenue that will be generated by the new development that the infrastructure will unlock. This increase is referred to as the 'tax increment'.

The tax increment is used to pay down the debt taken on by the authority, and once it is paid off all of the increased tax income flows back into the public purse. So not only is the regeneration project delivered, there is also a financial 'growth dividend'. As TIF captures value that would not have been generated otherwise there is no new tax burden for residents or occupiers and so it has the potential to be 'self-financing'.

The TIF model is widely used in the USA where the most popular method of raising the upfront funding needed is for the local authority to float bonds. This is then used as a subsidy to a development partner or to provide the necessary infrastructure directly. On smaller projects, the 'pay-as-you-go' method asks that a developer pay the costs of providing the infrastructure, and they are then reimbursed later by the local authority as the tax increments are generated.

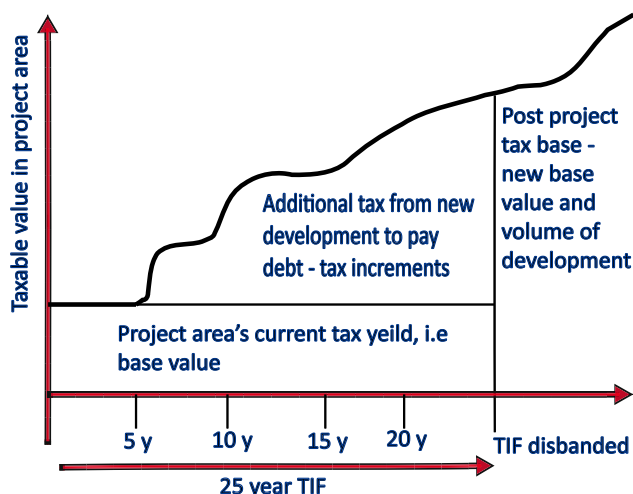
Implementing TIF in the UK

Thinking around TIF in the UK has evolved into the concept of the *Accelerated Development Zone (ADZ)*. These are essentially TIF projects that have been customised for the British context, in that the public sector is expected to provide the necessary infrastructure to facilitate development through loans from the Public Works Loan Board (PWLB). The relative cost effectiveness and ease of access to prudential borrowing in the UK makes this source of funding preferable to commercial bonds. However, one of the key issues yet to be resolved is which tax or source of income is best used to pay down the loan.

Much of the discussion has focused on the need for local authorities to retain the business rates generated by new development – the National Non-Domestic Rate (NNDR). However, this would require changes in legislation and the case still needs to be made to the Treasury that the business rate income generated through ADZs will be genuinely additional - and is not from displacing existing business activity from neighbouring areas.

In recent years, other sources of income have been introduced or proposed to enable additional investment in local infrastructure, such as the *Community Infrastructure Levy (CIL)* and *Supplementary Business Rate (SBR)*. An ADZ proposal should demonstrate how these incomes are part of the overall funding package to take forward regeneration in an area.

To date ADZs have been proposed for large strategic development areas that require significant amounts of investment. It is important that they do not ‘crowd out’ other possible TIF approaches, particularly smaller site-specific projects that could be funded by the developer pay-as-you go method. This carries less risk to a local authority in that the developer secures the additional funding needed, paid only when additional tax is generated.



Wider Lessons

It is clear that it may be some time before the legislative and policy work needed to create a national framework for TIF/ADZs is completed, but there is value in exploring how feasible this approach and other models that rely on capturing future value may be to those projects that are currently stalled or are without a viable funding strategy going forward.

The TIF concept helps to demonstrate the value of thinking strategically about long-term regeneration and for the public sector to use more creative ways to mitigate or carry development risk. This includes taking an investment-based approach to projects. With less capital funding to go around, local authorities can use a combination of their regulatory powers, access to prudential finance, new funding streams (such as CIL, TIF and SBR) and their own assets to build portfolios of projects that can recycle incomes, cross-subsidise regeneration initiatives and spread risk.

The Government and HCA are trialling new ways to co-ordinate local spending and to devolve more powers and flexibility to local government, for example through the Single Conversation process and the proposed Total Capital pilot programme. Despite what the Government decides with regard to TIF, it is likely that local authorities will need to play an even more proactive role in co-ordinating local agency networks to construct funding packages to take projects forward.

About US

BBP Regeneration is experienced in developing innovative funding and implementation programmes. We can help you explore the feasibility of using your assets, along with new income streams and new models, to continue delivering regeneration in this challenging economic climate.

BBP is a specialist property, regeneration and economic development consultancy providing advice to public and private sector clients at all stages of the redevelopment process. We offer a range of services including development management, appraisal and evaluation, business planning, development trouble-shooting and helping to unlock stalled schemes.

For more information on the services we offer please contact Stephen Pritchard on 0207 307 7000 or spritchard@bbpregeneration.co.uk

Or visit our website at www.bbpregeneration.co.uk