

FALKIRK COUNCIL

Subject: TAX INCREMENTAL FINANCING (TIF) INITIATIVE
Meeting: EXECUTIVE
Date: 18 JUNE 2013
Author: DIRECTOR OF DEVELOPMENT SERVICES

1.0 INTRODUCTION

- 1.1 This report provides an update on the development of the proposed Tax Incremental Financing (TIF) initiative project in the Falkirk area, advising the Executive of the Council's progress in the submission of a Full Business Case to the Scottish Futures Trust (SFT) and Scottish Government and their subsequent determination. In addition, further work is highlighted which will aid implementation. Subject to the decision of Ministers, the Council's Executive and finalisation of a legal agreement between the Council and Scottish Government, it is proposed that the TIF initiative will commence in October 2013.

2.0 BACKGROUND

- 2.1 Recent reports to the Economic Strategy & Development Committee advised members of the proposed development of a TIF related initiative in the Falkirk area and confirmed the success of a pilot scheme bid achieved following submission of an Outline Business Case in 2011.
- 2.2 The TIF mechanism involves the Council borrowing funds from the Public Works Loan Board to supply infrastructure to help promote development in specific locations. These locations are 'red-lined', releasing the additional non-domestic rates income generated from the development to the Council to repay the loan debt.
- 2.3 The Council engaged Ernst & Young and Rydens in the preparation of the final business case to support its application to the Scottish Futures Trust. The work to produce the final business case involved input from the Council's Development, Finance and Governance Services, Scottish Enterprise, Chemical Sciences Scotland, other external bodies such as Transport Scotland and SEPA. A full stakeholder survey of businesses and other bodies was also undertaken. This work reinforced the anticipated benefits of proceeding with the TIF initiative in the Falkirk area.

- 2.4 The Final Business Case makes the strategic case for investment and builds on work undertaken previously which emphasised the importance of the Falkirk area's contribution to the national economy. The TIF initiative helps to realise the Council's ambitions, reinforced in the National Planning Framework, for the Falkirk area to be recognised as a major national hub for manufacturing, chemicals and distribution activities.
- 2.5 A Summary Document, outlining the content of the Full Business Case with a list of the infrastructure works planned and the economic outcomes is included in the volume of appendices as Appendix 1. The initiative anticipates:
- provision of upgrades at M9 Junctions 5&6, the A904
 - site specific enabling works to stimulate development and
 - contributions towards Grangemouth flood defences and the completion of the A801 Avon Gorge upgrade
- 2.6 The TIF anticipates £67m of investment by the Council, leveraging a total of £176m in infrastructure expenditure. This is anticipated to attract investment of over £400m and the completion of c400,000sqm of business space. If secured at the level anticipated, the initiative has the potential to create almost 6,000 jobs.
- 2.7 The Final Business Case was submitted to SFT in March 2013 with the report then passed to Scottish Government with SFT's recommendations in April 2013. In May 2013 the Scottish Government confirmed an in-principle approval subject to amendments to the Business Case as outlined in section 3.

3.0 AMENDMENTS TO THE BUSINESS CASE

- 3.1 The Scottish Government welcomes the TIF initiative but must ensure that its implementation does not have an adverse effect on the national pool of non-domestic rates. As a consequence it has requested amendments to the terms of the full business case. The main effect of these is as follows:
- a) The red line area boundary has been drawn more tightly, however this retains the focus on the TIF development sites (see amended plan, included in the volume of appendices as Appendix 2).
 - b) A case put by Scottish Enterprise and the Council to include the Glenbervie and Central Park areas in Larbert, as these locations have the potential to attract investment of national economic benefit, was accepted and included in the red line area. . Inclusion of the Glenbervie site requires to be the subject of an additional exercise through a dedicated business case and this work will be initiated shortly.
 - c) It is proposed to use an interim displacement rate of 19.55% for the first 5 years. This has the effect of a top-slice on the non domestic rates income achieved and will be subject to review, after 5 years and every 3 years thereafter during the life of the TIF, based on the evidence of the new business attracted. Where there is clear evidence of development focus coming from other sectors there is a risk of the future displacement figure

being higher. This would have the effect of reducing the rates income received by the Council.

- d) 'Windfall sites', i.e. development outwith the development sites and within the redline area identified in Appendix 2 will be subject to review by the TIF Executive Group to consider their inclusion. Any developments that would be considered for inclusion have to be of a significant scale, and must be clearly linked to the creation of the TIF assets.
- e) Additional non domestic rates in relation to plant and machinery intensification within the petro-chemical industry will not be accepted at this stage. However, in the event that the receipt of income is slower than anticipated, and where new sites within the red line area and outwith the development sites have been considered this type of development may be included.
- f) In relation to the funding of the Grangemouth Flood Prevention Scheme, it is agreed that the TIF Executive will progress this investment cluster, including the contribution of TIF investment on conclusion of a suitable financing and delivery package to be agreed with Government.

3.2 It is considered that these changes represent a valid way forward for delivery of the TIF. They provide sufficient scope to manage the risks that the scheme presents to the Council while enabling the Scottish Government to avoid undue impact on the national pool of non domestic rates income. Once confirmed these provisions will form the basis of a legal agreement to be established with Scottish Government and SFT.

4.0 INFRASTRUCTURE & DEVELOPMENT PLAN

4.1 To assist in implementing the TIF initiative, the Council requires to develop an integrated strategy which connects the relevant infrastructure and development sites, highlighting their interconnections, confirming the works necessary within each infrastructure project and addressing the opportunities and challenges in progressing each development site. This will aid the Council's overall ambitions as expressed in the 'My Futures in Falkirk' economic development initiative.

4.2 The Council, in partnership with Scottish Enterprise, has appointed a consultant, Ironside Farrar, to prepare an infrastructure and development plan to help in the delivery of the scheme. The results of this exercise will identify the priority sites to stimulate market interest and confirm the enabling works required to accelerate development.

5.0 MARKETING & GOVERNANCE

5.1 The TIF initiative will require a concerted effort to promote the area and attract investment. This will be conducted in a joint investment strategy which involves partners in Scottish Enterprise, Scottish Development International, Chemicals Sciences Scotland and private sector bodies (including development partners). A marketing initiative will be prepared, building on the area's current market

presence established using the *My Futures in Falkirk* initiative. Following approval of the full business case a marketing programme will be prepared to target appropriate markets. The Council previously agreed to commission this exercise at a cost of £25,000.

- 5.2 The TIF will require robust governance arrangements to steer and monitor its delivery. As a Council-led initiative, the primary route for this will be through the Council Executive. Regular liaison will take place with Scottish Futures Trust and the Scottish Government through the TIF Executive Group. Additionally there will require to be a robust partnership maintained involving Scottish Enterprise and industry partners.

6.0 NEXT STEPS

- 6.1 In order to progress with the TIF Initiative, the following steps are planned. Progress of these actions will be subject to conclusion of the legal agreement:

Action	Timescale
In principle Government approval	June 2013
Confirm Council acceptance of TIF agreement	June 2013
Conclude TIF legal agreement	June 2013
Initiate marketing programme	From June 2013
Infrastructure works – tender M9 Junction 6, Earlsgate project	July 2013
Preparation of infrastructure and development plan	September 2013
Preparation of marketing plan	September 2013
Site-start - M9 Junction 6	October 2013

- 6.2 Following Committee and Scottish Government approval of the business case and supporting legal agreement, the first infrastructure project will be progressed. The M9 Junction 6 upgrade involves signalisation and carriageway widening at a key gateway junction for the area linking Falkirk and Grangemouth to the M9. Previous committee approval provided the £120,000 funding for the design and preparatory works for Junction 6. The project will commence through tendering in July 2013 and works will start on site in October 2013 completing early in 2014. Further infrastructure projects will follow subject to the guidance given by the infrastructure and development plan and will be subject of further reports to the Executive.

7.0 IMPLICATIONS

Policy Implications

- 7.1 The development of a TIF initiative is consistent with the Strategic Community Plan and is a key element in assisting the delivery of the *My Future's in Falkirk* initiative.

Legal Implications

- 7.2 A formal legal agreement is required to govern the delivery of the TIF Initiative, encompassing the proposals in the full business case and adjustments proposed by Scottish Government as outlined in item 3 above. The advice of the Council's Chief Governance Officer and external legal advisors has been provided in the production of the full business case and development of the formal agreement.

Financial Implications

- 7.3 The full business case for the TIF initiative anticipates the financial impact of the initiative over the 25 years of the project. The approval of the full business case by the Council and Scottish Government provides the Council with additional capacity for prudential borrowings arising from the potential for new TIF related business rates income. The TIF programme will therefore be created as a discrete element in the Council's Capital Programme as appropriate.
- 7.4 The full business case models the debt drawdown on the £58m of expenditure incurred on infrastructure (£67m including interest charges) and subsequent non domestic rates income anticipated. The table below identifies the financial model presented to SFT and Scottish Government through the full business case in March 2013 and following adjustment as outlined in para 3 above, a revision identified of the displacement figure to 19.55% to meet Scottish Government requirements :

Reconciliation of Full Business Case and Amendments:

<i>Item</i>	<i>FBC (£'000)</i>	<i>Amended FBC (£'000)</i>	<i>Movement (£'000)</i>
Gross NDR Income	226,514	226,514	-
Less: Displacement	(41,679)	(44,284)	(2,605)
Net NDR Income	184,836	182,231	(2,605)
Less: Debt repayment costs	(84,295)	(87,392)	(3,097)
Less: Contribution to infrastructure costs	(6,605)	(6,032)	573
Projected TIF Surplus	93,936	88,806	(5,130)
Projected TIF NPV surplus	25,838	24,216	(1,622)
Infrastructure expenditure	(67,039)	(67,039)	-
Funded by:			
PWLB borrowing	60,434	61,007	573
TIF revenue contributions	6,605	6,032	(573)
	(67,039)	(67,039)	-

The Council would be expected to take lead responsibility and address any subsequent risks in borrowing to support TIF-related investment.

- 7.5 In order to progress the TIF, expenditure was incurred to commission the Full Business Case from Ernst & Young/Rydens, at an initial fixed cost of £49,750. Further additional expenditure of £70,000 has been committed at agreed rates to complete the full business case and meet SFT and Scottish Government requests for an examination of funding options for the flood defences and to conduct additional stakeholder survey work requested by the Scottish Futures Trust.

While Ernst & Young/Ryden's work in the production of the business case has been completed there will be a requirement to utilise their specialist knowledge of the scheme in the delivery and management of the project during the initial start up phase. It is therefore proposed that the Council will continue to utilise their services over the first 3 year period of the TIF on the basis of the existing contract terms and agreed day rates agreed under SFT's framework procedure, to a maximum budget of £15,000 annually..

Risk Implications

- 7.6 The full business case identifies the main project risks and related mitigation strategies that will be required over the lifetime of the TIF initiative and these were reported to the Council prior to submission according to their delivery, financial and legal implications. The main risks and mitigation measures identified are:

Project Risks

- Development does not happen, or non-domestic rates income is over stated. .
- Movement in debt costs
- Co-funding of major projects is not secured
- Infrastructure cost overruns or delays
- Amendments introduced by Government (e.g. changes to displacement factor)
- Changes on material changes to the non domestic rates baseline
- Regulatory risks to approvals for development

Risk Mitigation Measures

- a phased approach to the commissioning of infrastructure projects
- an investment cluster approach splitting the project into 3 phases
- allowance for optimism bias, contingencies in infrastructure costing and sensitivity analysis of all project costs.
- a 25% deflator applied to the development site programme
- to address regulatory risks, the TIF focuses on development sites in the adopted Local Plan
- modelling of income uses 16 core sites, with a further 12 sites offering added potential to generate income
- site enabling projects will be tailored to suit market demand

- Establishment of a formal agreement with Scottish Government for implementation of the TIF initiative
- Position on material change to the non-domestic rates baseline has been clearly factored into the legal agreement

As a consequence of these measures it is considered that the risks to the Council associated with delivery of the project will be able to be addressed. A full risk register has been prepared and will require to be maintained during the project's implementation.

7.7 **Personnel Implications**

The TIF initiative is a major development project for the Council. It will be delivered through the commissioning of in-house Council services for design and project management of the projects, with engagement of specialist temporary and external support as required.

7.8 **Equalities Implications**

The implications of the TIF initiative for disadvantaged groups in the community will be monitored on an ongoing basis.

8.0 **CONCLUSION**

8.1 The TIF initiative is an innovative project and, when initiated, the Council will be amongst the first in the UK to proceed with such a venture. It presents a major opportunity for the Falkirk area, to kick-start development through the provision of advanced infrastructure and to market the area for the attraction of inward investment in key sectors which are targeted towards the stimulation of economic growth and job creation.

8.2 It is proposed that the Council enter into a formal agreement with the Scottish Government based on the proposals as outlined in the report above to deliver the Falkirk TIF project. While the initiative presents several risks for the Council, it is considered that these can be adequately addressed through the measures outlined and will enable it to move forward positively.

9.0 **RECOMMENDATIONS**

9.1 **It is recommended that the Executive:**

- a) agrees to commit to the delivery of the Falkirk area TIF initiative on the basis of the adjusted proposals to the full business case outlined in the report above**
- b) authorises the Director of Development Services, in liaison with the Chief Governance Officer to enter into a formal legal agreement with the Scottish Government and SFT to deliver the TIF initiative.**

- c) notes the actions taken outlined in section 6 of this report for implementation of the initiative, including progress with:
 - i) the procurement process and delivery of the development programme with regard to the infrastructure works at M9, Junction 6;
 - ii) an infrastructure and development plan
 - iii) a marketing plan for the initiative.

- d) notes the expenditure of £70,000 incurred through Ernst & Young/Rydens in the production of the Full Business Case and supporting discussions/negotiations with SFT and Scottish Government as well as the requirement to utilise their specialist services over the first 3 years of the TIF project.

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Director of Development Services

31 May, 2013

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LIST OF BACKGROUND PAPERS

- a) TIF Initiative – Full Business Case
- b) TIF Initiative, Project Files – not for publication

Anyone wishing to inspect the background paper listed at a) above should telephone 01324 590972 and ask for Colin Frame, Peter Reid or Douglas Duff.