

FALKIRK COUNCIL

**Subject: TAX INCREMENTAL FINANCING (TIF) INITIATIVE:
UPDATE REPORT**
Meeting: ECONOMIC STRATEGY & DEVELOPMENT COMMITTEE
Date: 18 SEPTEMBER 2012
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 Committee of the Council's progress in the preparation of a Full Business Case and the next steps to establish the initiative including the proposed submission to Scottish Futures Trust and Scottish Government and additional work being undertaken to aid implementation. Subject to approval, it is proposed that the TIF initiative will commence in 2013/14.

2.0 BACKGROUND

- 2.1 Recent reports to the Economic Strategy & Development Committee in February, September and November 2011 have advised members of the proposed development of a TIF related initiative in the Falkirk area and confirmed the successful pilot scheme bid. This was achieved following submission of an Outline Business Case last year.
- 2.2 TIF is a national initiative which aims to provide support for the provision of infrastructure and pump-priming of development which will assist in stimulating the growth of Scotland's economy. The development of the initiative is being led by the Scottish Futures Trust, which has provided guidance in the production of the business case.
- 2.3 There were initially three pilot projects in Scotland (Edinburgh Waterfront; Glasgow Buchanan Galleries and Ravenscraig), the Scottish Government approved a further three TIF projects in November 2011 including Falkirk and projects in Fife and Argyll & Bute.
- 2.4 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.

- 2.5 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 has 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 and a full stakeholder survey of business and other bodies has been undertaken. This work has reinforced the anticipated benefits of proceeding with the TIF initiative.
- 2.6 The Final Business Case makes the strategic case for investment, building 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 as a major national hub for manufacturing, chemicals and distribution activities.

3.0 TIF INFRASTRUCTURE PROGRAMME

- 3.1 The business case identifies a package of infrastructure works which aims to prime development in the area and help to prepare sites where new investment can be anticipated. Some of these works have been constrained previously anticipating contributions from developments arising in their vicinity. This has been an impediment to progressing the delivery of development and the TIF intervention helps to overcome this constraint.
- 3.2 The infrastructure projects identified include:-
- ***M9 Junction 6 Earlsgate Upgrade*** – signalisation and carriageway widening to improve access at a key gateway point and node for traffic in the Falkirk and Grangemouth area. This is the first project proposed for delivery and will assist in the management of traffic arising from the Helix project and HGV movements from local industrial & distribution sites.
 - ***M9 Junction 5 Cadgers Brae Upgrade*** – this is a major 4-way junction and a key access node for much of the HGV traffic serving the port and refinery. Lane widening, signalisation and improved access at Beancross/Cadgers Brae will ease congestion and access. It will also benefit tourist visitors to the Helix.
 - ***Icehouse Brae Upgrade*** – this is currently a minor service road serving distribution operators and the Rail Freight Facility at Tillyflats and West Mains. Upgrade and realignment will enable improved access and diversion of HGV traffic from the A904 Falkirk Grangemouth Road to the A9 Laurieston Bypass.
 - ***A904 Westfield Roundabout to West Mains Improvements*** – this is the main link corridor between Falkirk and Grangemouth and requires upgrade to improve access to Junction 6 and the motorway. It is also a key corridor serving development sites at the Falkirk Gateway, Stadium and Abbotsford Business Park. The programme of works includes

upgrade to the Westfield roundabout and junction improvements at West Mains.

- ***A801 Avon Gorge Upgrade*** – this is the primary linkage between the M8 and M9 in the area and represents a major constraint, particularly to the HGV traffic serving the area. It is proposed that a contribution be made to delivery of the project, with the 75% balance to be provided by Scottish Government/West Lothian Council.
- ***Grangemouth Flood Protection*** – this is a major project and a key constraint to development, particularly in the Port/Refinery and wider Grangemouth area. Additional work was undertaken by Ernst & Young to identify options to assist with funding of the flood defences. This has informed the approach suggested in the Business Case. It is anticipated that the major contribution to fund the project will be from national government however to assist delivery, it is proposed that the TIF initiative contributes 10% of the projected costs which are likely to be in excess of £100m
- ***Development Site Enabling Works*** – There are several development sites in the area where works are required to provide site enabling infrastructure. This includes sites where the Council is a significant land-owner at the Falkirk Gateway, Stadium and Wholeflats. It is anticipated that the TIF should contribute to delivery of these sites through provision of site services, access and landscaping. An Infrastructure and Delivery Plan will be prepared to establish the package of works required.

The programme, costs and intended phasing of infrastructure works is shown in Appendix 1.

3.0 TIF DEVELOPMENT SITES

- 3.1 The TIF submission aims to stimulate development on existing sites contained within the redlined area (Appendix 2). These sites have been identified as meeting the 'but for' test required by TIF whereby, but for the provision of TIF infrastructure, the development is unable to take place. The TIF initiative includes sites such as Earls Gate Park, Abbotsford Business Park, Wholeflats, the Falkirk Gateway, and Falkirk Stadium. An additional package of sites, contained in the current Local Plan and investment plans from key private sector interests (such as Forth Ports) have been included. In sum, 16 development sites are core to the TIF Business Case and have been used to model the anticipated NDR revenues. Development which arises on other sites, not listed will still be eligible to contribute NDR revenues.
- 3.2 It is important to stress that development being secured on these sites will be contingent on the economic circumstances prevailing during the 25 year period of the TIF. The Full Business Case includes a market appraisal and stakeholder survey which has been used to provide estimates of the anticipated scale and pace of development. This has informed the resultant estimate of non-domestic rates income that is likely to arise. In sum, the TIF anticipates construction of 409,686 sq.m of commercial and industrial floorspace.

4.0 FALKIRK GATEWAY

- 4.1 The Falkirk Gateway is a key development site in the area. This 150 acre site is joint-owned by the Council and Callendar Estates and a scheme was being pursued for delivery of a major mixed use Business Park, incorporating offices, retail and leisure development. Delivery of the project has not been able to be taken forward on a viable basis due to the impact of the recession. The project requires an initial £7m of infrastructure funding to access and service the site.
- 4.2 Callendar Estates have expressed interest in continuing to work jointly in delivering the project, with TIF as a vehicle to help stimulate the development. The TIF Business Case therefore proposes that action be taken to provide the infrastructure and seek new expressions of interest from parties in pursuing the scheme's proposals. This approach effectively negates the requirement for the now time-expired Development Agreement, previously entered into with MacDonald Estates. They would however be offered the opportunity, through e.g. any new round of developer led procurement, to express interest in any specific phase of TIF supported development where a developer led structure is determined to be the optimum approach.

5.0 MARKETING, GOVERNANCE AND ECONOMIC IMPACT

- 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 area strategy which involves partners in Scottish Enterprise, Scottish Development International, Chemicals Sciences Scotland and private sector bodies (including development partners). A marketing initiative will require to be conducted, building on the area's current market presence established using the *My Futures in Falkirk* initiative. Advance work on this, conducted for the Business Case proposes that the message "*MAKE IT. FALKIRK.*" be adopted, reinforcing the area's strengths in manufacturing and commitment to project delivery. Following approval of the Full Business Case a marketing programme will require to be prepared to target appropriate markets.
- 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's Committee structure, however regular liaison will be required with Scottish Futures Trust and the Scottish Government. Additionally there will require to be a robust partnership maintained involving Scottish Enterprise and industry partners.
- 5.3 Should the developments proceed as planned in the Full Business Case, it is anticipated that significant economic benefits to the area and wider national economy over the 25 year timescale of the project will arise, including:

- £585m of investment in infrastructure and development projects, creating almost 6,000 construction sector jobs
- 409,686 sq.m of commercial and industrial floorspace and 60 hotel bedrooms
- national jobs impact of 5984 jobs (net)
- local jobs impact of 8,304 jobs (net)
- Annual Gross Value Added for the national economy of £414m annually

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 the response received from Scottish Futures Trust/Scottish Government on the content of the proposals:

Action	Timescale
Submit Full Business Case to Scottish Futures Trust/Scottish Government	September 2012
Seek formal agreement letter for TIF Initiative	December 2012
Confirm Council acceptance of TIF Agreement	February 2013
Prepare Infrastructure and Development Plan	April 2013
Initiate Infrastructure works (M9 Junction 6, Earlsgate)	From April 2013
Initiate Marketing programme	April 2013

- 6.2 In order to meet the timescales suggested it is necessary that additional works be initiated to:

- complete the design and procurement of the designs for Junction 6 (estimated cost of (£120,000)
- prepare an Infrastructure and Development Plan at an estimated cost of £50,000 for the TIF development sites
- prepare a marketing programme for the TIF Initiative at an estimated cost of £25,000
- commission additional legal, financial and project support to assist in finalising the Business Case and Legal Agreements.

The cost of this work can be met from within existing budgets and, where necessary will require to be procured externally. Contributions to this work will also be sought from project partners.

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 will require to be put in place to govern the delivery of the TIF Initiative. 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 will be continued to conclude 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 both through the Council and Scottish Government would provide 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 build into the Council's rolling Capital Programme as appropriate. The Full Business Case models the debt drawdown, expenditure incurred on infrastructure and subsequent Non Domestic Rates income anticipated. In summary this involves:

<i>Item</i>	<i>Cost</i>
Total infrastructure expenditure	£176m
of which, TIF funded infrastructure expenditure	£67m
Financing cost of infrastructure	£84.6m
Public Works Loan Debt incurred	£59.1m
Net TIF revenue contribution to infrastructure	£7.8m
Gross NDR Revenues	£222.5m
Displacement	£40.9m
Net NDR Revenues	£181.6m
Projected TIF Surplus (Net Present Value)	£27.5m

The Council would be expected to take lead responsibility and address any subsequent risks in borrowing to support TIF-related investment. In order to progress the TIF, expenditure has been incurred during 2012/13 to commission the Full Business Case from Ernst & Young/Rydens, at a cost of £49,750. Additional expenditure of £21,900 was incurred to examine funding options for the flood defences and conduct additional stakeholder survey work requested by the Scottish Futures Trust. The commissioning of design work for the M9 Junction 6 at a cost of £120,000, the Infrastructure & Development Plan and marketing will be met from existing Development Services budgets for 2012/13.

Risk Implications

- 7.4 The Full Business Case identifies the main project risks and related mitigation strategies that will be required over the lifetime of the TIF initiative. These were identified according to their risks to delivery, financial and legal implications and the main project risks and the mitigation measures identified are:

Project Risks

- Development does not happen, or Non-Domestic Rates income is over stated. This is identified as the key project risk and factors such as the current economic circumstances and the complex regulatory regime affecting the area may impact on the level of revenues generated from development sites.
- Significant closures to existing plants, reducing Non-Domestic Rates income to the area
- Movement in debt costs – borrowing rates are presently at historic lows
- Co-funding of major projects (i.e. Grangemouth Flood defences or Avon Gorge) is not secured
- Infrastructure cost overruns or delays
- Amendments to the agreement introduced by Government (e.g. changes to the displacement factor)

Risk Mitigation Measures

- a phased approach to the commissioning of infrastructure projects to be taken forward dependent on market conditions & success of preceding phases
- an investment cluster approach splitting the project into 3 phases (M9 corridor, Grangemouth Flood defences and Avon Gorge) taking into account third party commitment to these major projects
- allowance for optimism bias and contingencies in infrastructure costing and sensitivity analysis of all project costs. The sensitivity analysis conducted shows a projected surplus for all scenarios tested.
- a 25% deflator has been applied to the development site programme
- to address concerns regarding regulatory risks, the TIF focuses on development arising on sites identified in the adopted Local Plan
- modelling of income uses 16 core sites. A further 11 sites outwith the TIF financial model lie within the red line area, offering added potential to generate income
- site enabling projects are programmed to respond to demand for each site and will be tailored to suit this demand
- in situations where a major closure results in potential for a significant reduction in business rates income the Business Case requests that the Council is protected from this material change. Agreement to this measure will require to be sought from Scottish Government.
- Establishment of a formal agreement with Scottish Government for the implementation of the TIF initiative

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.

7.5 Equalities Implications

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

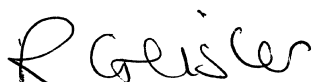
8.0 CONCLUSION

- 8.1 The TIF initiative 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. It is proposed that this report be forwarded to the Council for approval and thereafter to submit the Full Business Case, as summarised above, to Scottish Futures Trust/Scottish Government, seeking approval for its delivery. If approved, a further report will be prepared for the Council requesting that it enter into a formal agreement for delivery. While the initiative presents several risks for the Council, it is considered that these can be adequately addressed through the measures outlined, enabling it to move forward positively.

9.0 RECOMMENDATIONS

9.1 It is recommended that the Committee:

- a) agrees to submit the Full Business Case for the Falkirk area TIF initiative to the Scottish Futures Trust/Scottish Government for approval
- b) agrees to progress the actions outlined in section 6 of this report for implementation of the initiative, including production of designs and procurement documents for infrastructure works at M9, Junction 6, an Infrastructure and Development Plan and Marketing Plan for the initiative.
- c) notes the expenditure of £70,750 incurred to date in the production of the Full Business Case
- d) agrees that the necessary actions be progressed to formally terminate the Development Agreement previously entered into with Macdonald Estates for the Falkirk Gateway
- e) agrees that detailed arrangements for delivering the Falkirk Gateway and related sites be progressed in conjunction with the Infrastructure and Development Plan.
- f) agrees that this report be forwarded to the Council for approval



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Director of Development Services

12th September, 2012

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LIST OF BACKGROUND PAPERS

TIF Initiative – Full Business Case

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

