Time for TIF? The prospects for the introduction of Tax Increment Financing in the UK from a local authority perspective

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Abstract In September 2010, following an endorsement by Deputy Prime Minister Nick Clegg at the Liberal Democrat Party Conference, HM Treasury released a press statement confirming that TIF would be introduced in the UK.[1] It stated that Treasury and local authorities would work together in order to design a framework of rules within which TIF would operate. This research investigates what this framework of rules may comprise and how it may operate in the UK. There is surprising neglect, in literature on TIF, of what local authorities think about it and its potential to facilitate regeneration projects. A survey of 200 local authorities in the UK was conducted, complemented by interviews with local authority officers in Scotland, where pilot TIF projects are already under way. The research focuses in particular on the approval process necessary to ensure viable TIF schemes are identified and progressed, how these schemes are managed and financed, and what the main risks are for local authorities. Of primary concern to LA officers is the

financial viability of a project, followed by its long-term commercial viability, overall cost, value for money and impact on surrounding areas. The main risks are identified as being that: the uplift in business rates is insufficient to cover the cost of the loan; TIF does not work in areas of greatest need; private sector investment fails to materialise; and displacement is generated. The paper concludes that such risks may be mitigated by adopting a rigorous appraisal process and robust management structure, and predicts that a two-tier TIF approval process, with similarities to that employed by the Scottish TIF pilots, may emerge.

Keywords: *Finance, investment, regeneration, property development, infrastructure, business rates*

INTRODUCTION

Tax Increment Financing (TIF) is a financing tool that allows local authorities to borrow against the predicted future growth in local business rates arising from a new development. This money is used to fund the infrastructure improvements and enable the development scheme to proceed. A report commissioned by Aberdeen City Council described TIF as:

> 'a way for the public sector to fund infrastructure investment, to drive regeneration and unlock economic growth, by borrowing against the future additional tax revenues which the infrastructure investment unlocks. In essence "paying for growth with growth"'.[2]

In essence, TIF is a new form of public-private partnership (PPP) based on the premise that in areas affected by blight, property taxes tend to be relatively low. When an area is redeveloped, property values rise and commercial activity increases, which causes an incremental increase in the tax revenues generated.[3] In particular, TIF focuses on improving infrastructure in blighted areas to facilitate new development and increase property values.[4]

Enthusiasm for TIF has grown in the prevailing post-credit-crunch economic conditions in the UK, in both the public and private sectors, and Whitehall. The previous Chancellor, Alistair Darling, announced in December 2009 that the Labour Government would examine the possibility of introducing TIF in the UK for the first time.[5] His announcement was preceded by a report on regeneration funding by the All Party Urban Development Group (APUDG), which called upon the Government to introduce TIF pilots ahead of launching Accelerated Development Zone, the label for the UK 'variant' of the US TIF model, nationwide.[6]

APUDG called upon local authorities to become more proactive and less risk-averse when supporting development in their areas, and challenged them to make the shift from 'grant providers to equity shareholders'.[6] In particular, their report found that TIF was the most effective way of using public finances to encourage urban regeneration schemes at a

time when developers and developments are suffering from a chronic lack of finance. The report indicates that there is strong political support for TIF from central government, but what is less clear is whether this support is replicated among local authorities. This is something that the research seeks to remedy.

On 20th September, 2010, following an endorsement of TIF from Nick Clegg at the Liberal Democrat party conference, HM Treasury released a press statement confirming that TIF would be introduced to the UK. In the press release, HM Treasury stated that:

> 'TIF will operate within a carefully designed framework of rules, which the Government will work closely with Local Authorities to design'[7]

The 2010 'Non-Domestic Rating Contributions (Scotland) Amendment Regulations' permits six TIF pilot schemes, three of which have already been approved, for Edinburgh Waterfront, Ravenscraig in North Lanarkshire and Glasgow's Buchanan Galleries.[8] Aberdeen, Falkirk, Fife, and Argyll and Bute are understood to be working up full business cases with the Scottish Futures Trust (SFT).[9] The reason for Scotland's head start over the rest of the UK is that primary legislation was not required; Statutory Instrument Number 391 (2010) permits local authorities in Scotland to retain an element of non-domestic rates before submitting the rest to the Scottish Government.[10]

With core funding for regeneration in England a third of what it was two years ago,[11] and the Coalition Government pursuing a localism agenda that sees responsibility for urban regeneration residing with local authorities and Local Enterprise Partnerships (LEPs), TIF is a tool whose time has come, suited to both the prevailing economic conditions and current political ideology. In England, the Local Government Resources Review[12] sets out proposals for business rates retention, including TIF. Its findings are still awaited.

The research explores whether there is an appetite for TIF among local authorities in the UK, identifies how potential TIF projects may be identified, approved, funded and managed, and investigates the main risks that the use of TIF may pose to local authorities. The following research questions are posed:

1. What enthusiasm is there for TIF among local authorities?
2. What stages should the TIF approval process comprise?
3. How should TIF projects be financed?
4. How should TIF projects be managed?
5. What are the main risks of TIF from a local authority's perspective?

The research seeks to address these questions by way of a comprehensive literature review, case study of the TIF pilot projects already under way in Scotland and a survey of 200 UK local authorities.

INTERNATIONAL EXPERIENCE OF TIF

TIF originates in the USA, where it was first used in the early 1950s as a key part of California's post-war urban redevelopment scheme.[3] The use of TIF grew rapidly in the 1980s at a time when federal government funding for redevelopment was being cut by the Republican administration and responsibility for urban policy was being transferred to lower-level government.[4] However, TIF is now so overused in the USA that its potency has been fundamentally weakened.[4] One of the most comprehensive reviews of the implementation of TIF is that commissioned by the City of Calgary,[3] which investigated in detail the operation of TIF in three American cities: Portland, Denver and Chicago. While the processes in each of the cities varied, all three required two key criteria to be satisfied:

1. *Blight test:* For TIF to be approved, it should demonstrate that urban regeneration is required in order to prevent or remove 'blight'. US cities have their own statutory criteria of what constitutes a 'blighted' area, such as the presence of unsafe buildings, prevalence of depreciated property values, environmental contamination and inadequate infrastructure.[3]

The need for TIF criteria was recognised by APUDG, which called for a strict set of pre-conditions to ensure that TIF is rationed:

> 'to only the most critical property development and regeneration projects [and] would ensure that the tools genuinely stimulate additional investment that would not otherwise have occurred'.[6]

The Government may wish to see local authorities and LEPs create their own definitions of blight, although this may lead to inconsistency and diluting of the 'blight' test. There is already concern that the TIF proposed in Glasgow, for the expansion of Buchanan Galleries, will benefit what is already one of Scotland's prime retail locations at the expense of less prosperous locations.

2. *'But for' test:* The 'but for' test requires demonstration that private funds are insufficient and the development would not reasonably be anticipated or realised without the adoption of the TIF.[3]

Such a requirement poses the question as to how long must an area have suffered from a lack of private investment for it to pass the test. Aisbett and Wray,[13] argue that a 'but for' test is crucial in demonstrating the viability of proposed development schemes. They surmise that the test ensures that proposals would be passed in only situations where the development would have proceeded already were it not for the issue of infrastructure shortfalls. In other words, TIF schemes would be passed only in situations where private-sector developers have deemed a project viable were it not for the cost of infrastructure

provisions. By implication, proposals deemed unviable for a range of issues as well as infrastructure problems, would not acquire TIF status.

The British Property Federation (BPF) regarded the imposition of criteria as being crucial in avoiding the dilution of TIF schemes in the UK. In order to ensure that TIF is not applied to mainstream developments that would happen anyway, it called for TIF to observe two key factors:

1. There must be a regeneration need sufficient to justify a TIF.
2. Regeneration would not be feasible without the kind of help that a TIF can provide.[4]

Other preconditions could include an assessment of value for money, that the 'scale and quantum of investment should be material to the local authority and that private sector investment would be leveraged through the deployment of TIF'.[14] The SFT, in its guidance to Scottish local authorities, evidenced support for the 'but for' concept by requiring authorities to demonstrate in their business case that the anticipated outcomes from a TIF scheme would otherwise not occur in the timeframes that TIF would enable.[9]

Feasibility

The BPF called upon UK legislators to ensure that TIF proposals are subjected to a rigorous feasibility study by an independent consultant. Once again, the City of Calgary's report provides some indication as to how TIF proposals in the UK may be subjected to comprehensive feasibility studies. The report found that each municipality required a comprehensive redevelopment plan to be produced once the TIF proposal had been judged to satisfy the initial blight and 'but for' criteria, but before final approval was granted. While each city had its own development plan requirements, some criteria were common to all three. These included: a full financial analysis; a development timetable; an impact assessment on surrounding areas; a fiscal impact assessment on overlapping taxing bodies; and, in some cases, an end date at which it was anticipated that the amount borrowed would be repaid.[3]

Public versus private led

In the USA, most TIFs are identified and led by the private sector, which some believe has resulted in a diminution of their focus on regeneration.[15] It would seem therefore that public-sector oversight is required to ensure that TIF is focused on the areas that need it most, and that its impact is not diluted.

The Local Growth White Paper[16] indicated that the Government and local authorities will work together to implement TIF, with no mention given to the role of the private sector. However, there is pressure on the Government to allow greater private-sector involvement in the process. The Core Cities Group (CCG) and BPF[17] called upon the Government to be flexible when it comes to who should initiate the TIF approval process, with either a public- or private-sector body being able to identify a possible TIF district.

Perhaps the most logical approach is for public and private bodies to work in close (public-private) partnership to produce a comprehensive feasibility study for proposed TIF schemes, and ensure that TIF is targeted at areas where there is a genuine need for urban regeneration, while still providing a realistic, viable commercial development. An example of this in practice is the Edinburgh Waterfront regeneration scheme, which is a PPP between Forth Ports and Edinburgh City Council. The proposal for City of Edinburgh Council to borrow £84m, was submitted by both the council and Forth Ports to the SFT. Once approval had been obtained from the Trust, the proposal was passed to the Scottish Finance Secretary at Holyrood.[18]

Management

In the UK, there appears to be some consensus on the need for central government oversight of the establishment of TIFs, and for the approval process to be monitored and regulated at a government level.[13] Hayman,[19] quotes a Treasury source as stating that the Treasury will demand 'final approval on each project', consistent with the Treasury's press statement of September 2010, which confirmed that TIF would operate within a 'carefully designed framework of rules'.[7] Indeed, it seems sensible for the Treasury to have an important say in the viability of TIF schemes when it may well be expected to underwrite any local authority loans. There is evidence of this in Scotland, where the two TIF schemes approved so far have both had to pass through the Scottish Finance Secretary for final approval.

Some commentators argue that local governance of TIF schemes is of equal importance. The CCG believes that once TIF has been established with national government approval, the management and monitoring of the programme should be deferred to local level.[13] Hoctor[20] suggests that LEPs may be best placed to perform this role. It seems difficult to argue with this logic. Local authority involvement is important to ensure that there is a balance between the private-sector focus on commercial success, and the commitment to economic regeneration of a blighted area. The best way forward, it would appear, is for there to be a compromise between national government oversight/approval of TIF schemes, which are then administered at a local level by a public-private partnership through LEPs.

Funding mechanisms

The Government's favoured method of TIF funding is through an extension of local authorities' prudential borrowing powers. The Local Growth White Paper states that new powers will be introduced that will allow local authorities 'to borrow against future additional uplift within their business rates base'.[15] Conspicuous by its absence was any indication that the government would permit more controversial private-sector borrowing powers. Aisbett and Wray[13] believe that local authorities will be permitted to seek loans from either the Public Works Loan Board (PWLB), or from commercial lenders. In

Motherwell, North Lanarkshire Council has borrowed £73m from the PWLB to fund the UK's second TIF scheme.[8]

TIF runs contrary to the Government's mantra of reducing public-sector borrowing and it may unwittingly become a *de facto* guarantor for loans, exposing the Treasury to unforeseen bail-outs. It is also reasoned that local authorities in poorer areas will find it more expensive to borrow money given the increased risk involved in successfully delivering commercial developments.[21] Whitten[15] also questions whether local authorities will be able to meet the demand for TIF given that they are unlikely to be able to borrow enough money to support more than one TIF scheme at a time.

A common method by which local authorities borrow money in the USA is by the issuing of municipal bonds. This involves 'local authorities issuing bonds which are sold to the capital markets to raise money to pay for infrastructure'.[14] In the USA, the local authority does not usually guarantee repayment of the loan; the risk of default is borne by the bondholders themselves, and therefore the cost of issuing the bonds can be prohibitively high.[3] Using this method, taxpayers direct their taxes directly to the bond trustee, usually a bank, which then forwards them to the bondholders.[4] This re-direction of taxes to a private institution may prove controversial in the UK.

The third financing model regularly used in the USA is the so-called 'pay as you go' developer financing. This involves no upfront borrowing by the local authority. Instead, the private development company pays for all the infrastructure costs upfront and then is repaid by the local authority using the uplift in taxation.[3] While in theory this may be an attractive proposition, there is no evidence to suggest that either central or local government are willing to consider this financing option. However, there does appear to be some private-sector appetite for a developer financing model. Whitten[15] suggests that some developers are 'riled' that they are not to be able to activate the model. For example, Hammerson is reported to want to use a developer-led TIF model to fund £137 million of infrastructure improvements in its proposed regeneration project in Sheffield.

There are reasons however, why a developer-funded model may not be practical or desirable from the government and taxpayers' perspectives. It is questionable whether developers will be able to secure enough money from the banks to fund the upfront infrastructure costs. One of the main reasons why TIF is being introduced into the UK is precisely because developers cannot secure bank loans. Developments in the most deprived areas will certainly find it very difficult to secure bank lending. It is also arguable that, if developers can secure lending from the banks for infrastructure costs, then there is no reason why local authorities should be expected to repay the developer's loan. There is also a danger that if developers become accustomed to being able to recoup infrastructure costs through TIF, they may become dependent on the scheme to fund all regeneration projects.

Aisbett and Wray argue that developer financing is some way off in the UK because most developers are unwilling to finance risky infrastructure costs upfront and would be left exposed should the tax increment be insufficient to repay the loan. More

fundamentally, it may require controversial legislative change to permit private-sector companies to collect taxes directly. They suggest an alternative, hybrid approach, to funding whereby developers and local authorities share the risk of borrowing.[13]

Side effects

Even the strongest advocates of TIF admit that the policy is susceptible to the charge that it does not generate new jobs, but merely re-locates businesses from neighbouring districts.[22] The BPF concedes that TIF may simply 'move existing jobs into new facilities'.[4] This is the same criticism that was levelled at Enterprise Zones in the 1980s, and indeed, could be levelled at all area-based regeneration vehicles. A counter-argument is that displacement from one neighbouring area to another is a better scenario than businesses leaving the area altogether.[16]

Similar arguments have been made about the displacement of taxes, which policymakers appear to be aware of. The APUDG stress the importance of permitting TIF only when investment would not otherwise go ahead, and the impact on tax revenues has been fully investigated.[6] In particular, the Treasury has long been reluctant to sanction projects that involve moving taxation from one local authority's pocket to another. This is the main reason why the Treasury is expected to demand final approval of TIF proposals. Only when the Treasury is convinced that at least some of the uplift in business rates will be truly additional, will it grant its approval.[19]

RESEARCH METHODOLOGY

The preceding review of literature on TIF, provides insight into how projects may be selected and approved, their feasibility determined and progress managed, and the financing options that are available to pay for them. What is apparent is that no substantial research has been conducted into what local authorities think about TIF. This is surprising, given that local authorities are central to the successful introduction and operation of TIF in the UK. Do local authorities have an appetite to use TIF? Who do they think should approve TIF projects? How should the feasibility of projects be determined? What are their views in relation to the merits of the various financing option? Who do they think should manage TIF projects, and what are the greatest risks of TIF from a local authority perspective?

These are the questions that the research has sought to address by way of primary data collection and analysis. A survey comprising 12 questions was sent to 263 local authority officers working in the estates, regeneration or economic development departments of a structured sample of 200 local authorities across the UK. Anonymity was provided to all participants through data aggregation. The survey was designed to provide empirical data to answer the research questions posed above. Fifty-one fully completed surveys were returned from local authorities in all English regions, Wales, Scotland and Northern Ireland, representing a respectable response rate of just under 20 per cent.

The survey and analysis was reinforced by interviews with two local authority officers in Scotland, one of whom is responsible for progressing the UK's first TIF pilot project. The other is in the process of submitting a TIF proposal to the SFT. Two further interviews were conducted with a Scottish Development officer who had been to the USA to research TIF, and a local authority officer at one of the English Core Cities planning to use TIF to fund city-centre regeneration.

ANALYSIS OF SURVEY RESULTS

Eighty-six per cent of respondents are familiar with the concept of TIF and 60 per cent of authorities are either going to use, or are considering using, TIF in the future. Two responding authorities from Northern Ireland had not considered the use of TIF, and only two authorities (one in Scotland and one in the south-east of England) had considered and rejected use of TIF. Across England, Scotland and Wales, there appears to be a strong appetite for TIF, although this is tempered by the fact that consideration of TIF is still at an early stage, with many local authorities reserving judgement until they see the primary legislation.

Interviewees indicated that smaller authorities might find it difficult to service the kind of debt that a TIF scheme would entail, with a local authority's ability to use TIF dependent on its borrowing capacity, institutional culture and staff knowledge. A more fundamental challenge is whether local authorities are ready to make the ideological leap from government grants to risk-based borrowing, whereby councils have to bet on the future outcome of a development. It is just such an attitude shift that APUDG called upon local authorities to make.

The main reason why local authorities are examining the potential of TIF is the lack of regeneration funding; nearly 70 per cent of participants described themselves as being concerned or very concerned about this (see Figure1), and nearly 90 per cent of respondents believed that regeneration projects were less likely to proceed as a result of spending cuts. TIF is being considered cautiously as a means of addressing the shortfall of funding for infrastructure improvements.

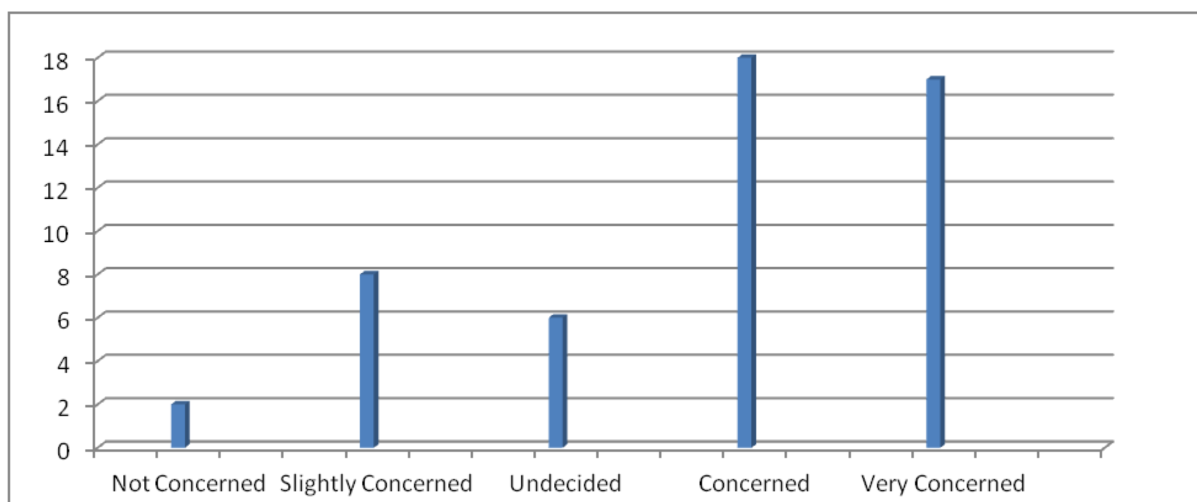

Figure 1: How concerned are you about regeneration funding?

Nearly half of respondents believed that local government should have responsibility for identifying TIF districts, with a further third ambivalent about whether it be central, local government or the private sector (see Figure 2).

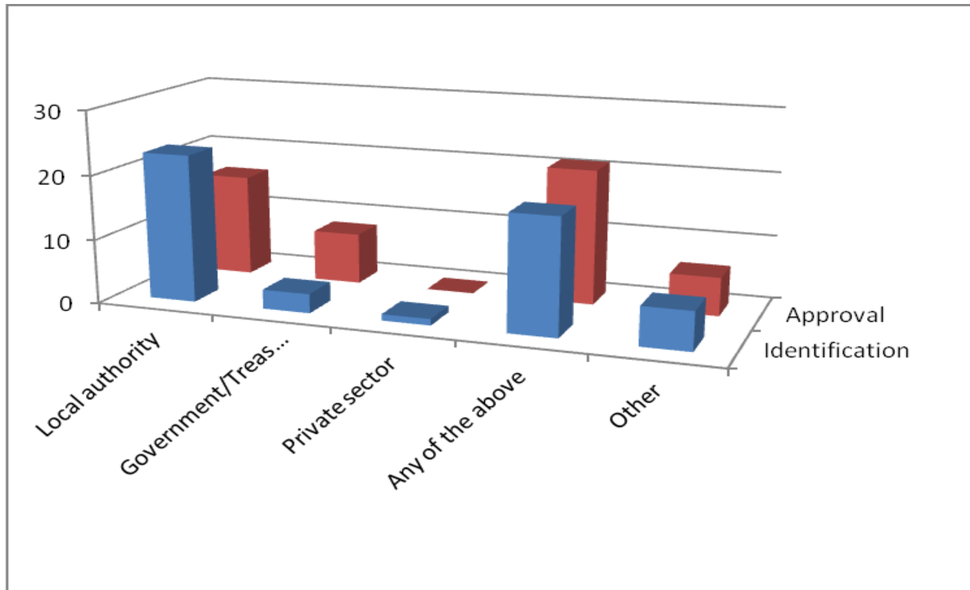

Figure 2: Who should be responsible for identifying and approving TIF districts?

Many respondents acknowledged that partnership is the best way forward:

> 'I would consider it important that local authority's work closely with national government to identify TIF districts. It is also important that local authorities work closely with the private sector to ensure that TIF projects are identified in locations where private sector investment is likely to follow the public sector investment in essential infrastructure that will unlock development opportunities and thereby the associated non-domestic rates revenue which will support the borrowing costs of TIF.'
>
> Questionnaire respondent

While around a third of respondents believed that local authorities should have final say as to whether a TIF scheme goes ahead, over 40 per cent indicated that it should be a joint decision made between the local authority, Treasury and the private developer. Unsurprisingly, there was no appetite among local authority officers for the private sector to approve TIF projects.

Feasibility

Participants were asked to select and rank the four most important items that should be included in a TIF feasibility study from a list of ten identified from the literature as being

incorporated into US TIF feasibility studies. The respondents ranked the items as shown in Table 1.

Table 1: Ranking of factors to be included in feasibility study

Rank	Factor	Aggregate score (first choice = 4, second choice = 3 etc)
1	Financial analysis to demonstrate viability	134
2	Assessment of long-term viability	76
3	Estimate of cost of project and source of funding	70
4	Value-for-money appraisal	59
5	Impact on surrounding area	57
6	Contingency plan	35
7	Fit with local planning framework	32
8	Development timetable	27
9	Limit on indebtedness	19
10	Impact on other tax-raising regimes	1

From the perspective of local authority officers, of primary importance is an analysis of financial viability; of secondary importance are long-term commercial viability, the cost of the project, source of funding, value for money and impact on surrounding area. Of tertiary importance are contingency planning, compatibility with local planning and a development timetable. The results are not surprising given that local authorities will borrow and invest money on the premise that private-sector development will follow and commercial activity on the site will provide a sufficient uplift in business rates to pay for the TIF loan. These results support the kind of feasibility study previously advocated by CCG and PWC.[14]

Financing TIF projects

Survey participants were asked to express opinion on six funding options using a Likert scale from ‘strongly disagree’ to ‘strongly agree’. Over 50 per cent either agreed or strongly agreed that local authorities alone should be able to borrow against the future uplift in business rates, echoed by 47 per cent disagreeing or strongly disagreeing that private developers should be able to borrow money to finance infrastructure improvements on a ‘pay as you go’ basis, with a further 21 per cent ‘don’t know’. Respondents are broadly in agreement therefore with the Local Growth White Paper, which recommends that only local authorities should be able to borrow using TIF.

In contrast, the interviewees who have experience of working up TIF schemes, were more amenable to the suggestion that private sector developers should be able to borrow on a ‘pay as you go’ basis, attracted in part by the prospect of transferring the risk of borrowing to the private sector. Indeed, two of the interviewees felt that this option should

be encouraged whenever possible, subject to ‘blight’, ‘but for’ and viability tests being satisfied.

Eighty-two per cent of respondents felt that local authorities should be able to borrow money from either public sources or private lenders. The three pilot schemes in Scotland have all been funded through the PWLB, but there is a clear appetite for more flexible funding options such as municipal bonds. Two-thirds of those offering an opinion on this agreed or strongly agreed that local authorities should be able to issue municipal bonds. However, a major stumbling-block is that a market for this kind of bond must first be created by a critical mass of authorities issuing bonds simultaneously. This requires coordination and, for some authorities, a fundamental change of culture, capacity and knowledge, to deal with such complex financial instruments.

Surprisingly, given the desire for funding flexibility, 57 per cent agreed or strongly agreed that the amount of money local authorities can borrow should be capped. This implies that local authorities are concerned about the risk of overreaching themselves and would like central government to provide a safeguard by limiting how much they could borrow. Another safeguard would be for Treasury to underwrite local authorities’ TIF loans. Nearly a quarter of participants were undecided, but 47 per cent agreed or strongly agreed that Treasury should do this, the benefit being that councils should, in theory, be able to secure cheaper lending if central government were guaranteeing the loan.

The Scottish Government has not been prepared to underwrite the borrowing of the TIF pilots, however. It is argued that there is a *de facto* underwriting of local authority loans, no matter what may be said officially, as it would be politically untenable for a government to allow a local authority to go bankrupt. It may well be that respondents who believe that a cap should be placed on the amount councils can borrow using TIF have viewed this as a *quid pro quo* for Treasury underwriting their loan.

To summarise, the research demonstrates that local authority officers are divided on whether private developers should be able to borrow using TIF, but may become more receptive to the idea once their knowledge is enhanced. There is a strong desire for as much flexibility as possible in terms of the funding streams open to councils, while there is also a wish for Treasury to underwrite loans in return for imposing a cap on what councils may borrow.

Management of TIF Projects

Two-thirds of respondents believed that local authorities should be responsible for the management of TIF projects. There was no support for the idea that management should be handled centrally by Treasury or by the private sector. This is a predictable response, as local authority officers would be inclined to favour retaining local control of TIFs. However, a number of respondents suggested that they would like to see a model whereby the local authority leads the management, but does so in partnership with the private sector.

> 'I think these would be best managed as a partnership between the public and private sectors. The public sector lacks skill in delivering complicated projects on time and on money, the private sector can enhance this. The public sector have the relationship with Treasury and prudential borrowing which they can manage.'
>
> Survey respondent

Interestingly, just under a quarter of respondents favoured management through a LEP, believing them to be well placed to deliver such an approach.

The TIF pilot projects in Scotland have been overseen by a two-tier management structure with primary management by the TIF Executive, made up of representatives from the local authority, the Scottish Government and the SFT, and established to perform a monitoring and evaluation role of the TIF project. The Executive meets quarterly to review and monitor the progress of the project and level of displacement within the TIF district. A TIF Delivery Board or steering group, made up of representatives from the local authority, private-sector developer and others such as landowners, lenders, members of the public, business leaders and end users of the development, sits beneath the Executive. It meets more regularly and manages the delivery of the project, monitors business development, ensures finance is available, and handles any ongoing planning and procurement issues.[9] One interviewee felt that such an arrangement from the Executive marginalises the private-sector developer, but to date, the Scottish Government has resisted all attempts to include the private sector within the Executive, and has shown no sign of compromising.

In summary, the empirical analysis demonstrates overwhelming support for local authorities to retain control of TIF management, but working in partnership with the private sector developer. Predicatably, there is no desire to see central government involved in the management of TIF and the two-tier governance structure established for the pilot projects in Scotland does not appear to be favoured by the local authority officers who responded to the survey.

Risks

The greatest risk from TIF, identified by more than 90 per cent of respondents, was that a local authority might become financially exposed as a result of the uplift in business rates being insufficient to meet the cost of the TIF loan. This result confirms the opinions previously expressed by the BPF, CCG and APUDG. In the event that the uplift is insufficient, the question arises of who should fill the gap. Should a local authority find the money by making savings elsewhere? Should central government bail out a local authority, or should the private developer step into the breach?

Interviewees were divided on this issue, with some of the opinion that local authorities have to accept exposure to this risk as part of TIF, and should be expected to shoulder the

burden should the increment be insufficient. Others believed that central government should act as a safety net, stepping in to help an authority unable to cover the cost of the TIF loan. The greatest exposure to risk of a shortfall is in the early stages of a TIF project, between investment in infrastructure and uplift in business rates, after which risk would diminish.

Eighty-five per cent of respondents were concerned that TIF would work only in commercially-viable areas and do nothing to regenerate deprived areas, as there is no point developing new infrastructure if there is little appetite from the private sector to invest. Notably however, the Ravenscraig TIF pilot is in North Lanarkshire, which contains the second-highest number of deprived districts in Scotland after Glasgow.[23] While it remains to be seen whether this project will be successful, it does demonstrate that local authorities in deprived areas of the UK may contemplate using TIF as a regeneration tool.

While respondents recorded little concern about the potential side-effects of a TIF on neighbouring areas, displacement is recognised as a serious issue in Scotland, with a requirement that all applicants provide an estimation of likely displacement and annual monitoring. An interviewee acknowledged that the Ravenscraig retail-led TIF, involving the creation of a large shopping centre, is likely to generate significant displacement. In theory, TIF-enabled development should lead to no greater displacement than any other new commercial development, any displacement being a consequence of the development, not the TIF itself.

In summary, the areas of greatest concern for local authority officers are that the increment is insufficient, that TIF will not work in the most deprived areas, that displacement will be generated, and that private-sector investment will fail to materialise.

CONCLUSIONS AND RECOMMENDATIONS

The survey of local authority officers demonstrates that they are looking carefully at how TIF could be used to fund infrastructure investment to unlock commercially-viable development opportunities. Coupled with mainstream support from the APUDG, BPF and CCG, it may be concluded that there is considerable interest among local authorities in introducing TIFs in the UK. Local authorities are concerned about the lack of funding for regeneration, and while they cautiously welcome the potential TIF offers to unlock regeneration projects that require up-front infrastructure, their interest is more out of necessity than enthusiasm for the model *per se*. Both ‘blight’ and ‘but for’ preconditions for TIF need to be consistently enforced in order to prevent dilution and overuse.

Of primary concern to local authority officers is the financial viability of TIF projects, followed by their long-term commercial viability, overall cost, value for money and impact on surrounding areas. The main risks from their perspective are that: the uplift in business rates is insufficient to cover the cost of the loan; TIF does not work in areas of greatest need; private-sector investment fails to materialise; and displacement is generated. Risks may be mitigated by adopting a rigorous appraisal process and robust management structure, but to achieve this it may be necessary to adopt a two-tier approval model

involving central government; something that the respondents did not favour. Based on existing literature, the Scottish experience to date, and the need for rigour and rationing, the process for approving TIFs in the rest of the UK may end up looking like the flow-chart in Figure 3.

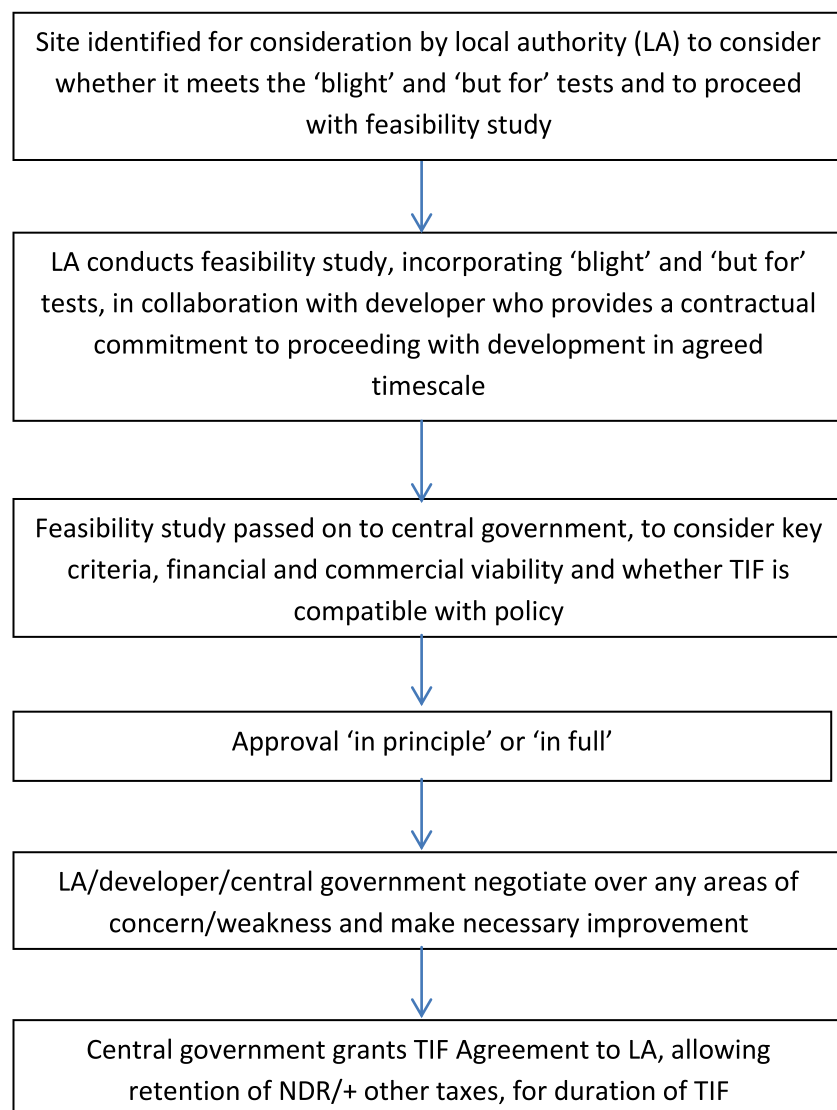

Figure 3: How the process for approving TIFs may end up looking

For TIF to be successful in the UK, projects must be subjected to repeated and rigorous feasibility study, to ensure they are both commercially and financially viable, and developers must be contractually committed to proceeding with development. A flexible approach to the funding of TIF projects is favoured, with local authorities being allowed to borrow from both private and public sources. Local authority officers are divided as to whether private developers should be allowed to borrow using TIF, but do want flexibility on funding streams and underwriting of loans by Treasury in return for imposition of a cap on funding.

Recent increases in PWLB rates means that, subject to a number of pre-conditions, it is now more cost effective for local authorities to issue their own (municipal) bonds. The New Local Government Network estimates that local authorities doing this, could save up

to 20 basis points on their borrowing costs, assuming they have not only the power to issue bonds, but also a credit rating[24]. Individual authorities may need to band together to achieve the large scale of bond issuance that is necessary to overcome otherwise punitive up-front costs. What remains to be seen is whether the lending market is convinced about the potential for such large scale joint authority bond issues.

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