THE TAX INCREMENTAL FINANCING ADMINISTRATION PILOT SCHEME

TIF Pilot Scheme

1. Tax Incremental Financing ("TIF"), allows Local Authorities to capture locally generated, incremental non-domestic rate revenue from regeneration development that has arisen as a direct result of their investment in "unlocking" infrastructure. The captured revenue is then used to repay debt raised to finance the infrastructure investment.

2. The TIF Pilot scheme has been developed by Scottish Ministers to enable up to six local authority projects to use the incremental non-domestic rate revenue to finance borrowing associated with the enabling infrastructure investment projects. The TIF scheme allows Local Authorities to capture incremental non-domestic rates revenue arising from development in the defined TIF project area, in return for which the local authority takes responsibility for meeting the debt repayments associated with the finance raised to deliver infrastructure required to unlock the development.

3. The local authority undertakes the borrowing and is therefore liable for the repayments. The local authority takes any risk associated with the additional NDR revenue generated by the project not materialising in the way that is forecast in the Business Case and the local authority keeps nothing if receipts are below the amount required to generate an amount for it to retain.

4. The use of TIF is predicated on a "But-For" test, meaning that the identified enabling infrastructure required to unlock development in the area can only be delivered through the creation of the TIF mechanism. It would not otherwise be deliverable by finance from the private sector and / or alternative public sector funding. TIF should be used in parallel with existing public and private sector funding streams.

5. Any proposal for a TIF project must therefore demonstrate to Scottish Ministers that:

- the enabling infrastructure will unlock regeneration and sustainable economic growth;
- it will generate additional (or incremental) public sector revenues (net of a displacement effect); and
- it is capable of repaying, over an agreed timescale, the financing requirements of the enabling infrastructure from the incremental revenues.

6. For the purposes of TIF, regeneration and economic growth is classed as being about the sustainable transformation of places for the better. Such transformation should deliver additional economic, physical, social and environmental aspects, which could be evidenced through a series of outcomes such as, but not limited to:

- improved business confidence;
- increased economic activity and employment / lower unemployment;
- higher income and less reliance on benefits;
- more effective public services;

- improved educational outcomes and higher skills base;
- higher land and housing values;
- improved community confidence;
- an improved and better designed built environment; and
- an enhanced natural environment, including access to quality green space.

7. All TIF proposals will need to be supported through the development of a Business Case, which should detail the justification for utilising TIF to deliver investment within the proposed area, the basis for the selection of the chosen enabling infrastructure and why it is believed this infrastructure will deliver the growth and additionality envisaged. The TIF Business Case should also consider:

- the overall viability of the project, from both an economic and financial perspective;
- additionality at the city/region level, and national benefit;
- implementation structures; and
- risk allocation and management and demonstrate deliverability along with a clear consideration of the key risks associated with the TIF, including the allocation of financial and delivery risks to consistently incentivise the key parties.

8. Each supporting Business Case will be assessed by the Scottish Futures Trust and must present to Scottish Ministers a clear value for money proposal for any project to receive approval to proceed. If a proposal does not clearly meet these conditions then it will not receive approval to form part of the TIF Pilot Scheme.

Governance

9. A robust project governance and reporting structure will need to be established to ensure quality assurance, transparency and clear decision making. As part of this governance structure a TIF Executive will have to be established, the key functions of which include;

- Developing and coordinating the TIF infrastructure programme and the associated planning and approval processes;
- Ensuring the development programme reflects the objectives of the key stakeholders;
- Design development, tender evaluation and award;
- Project management and delivery;
- Ensuring finance is available; and
- Monitoring business development/economic impact (as illustrated in paragraph 5).

10. Any proposed change to the enabling infrastructure that forms part of the agreed business case will need Ministerial approval following a re-assessment of the original business case.

Period of Individual Projects

11. A local authority TIF project will operate for a fixed term and must be approved in advance by the Scottish Ministers. It is expected that incremental rates capture will commence in the financial year after approval of the TIF project and the project will operate for 25 years following the first financial year of infrastructure investment. In order to manage risk a TIF project will require to be structured in a way that any prudential borrowing debt should be repaid before the expiry of the TIF agreement.

Regulations

12. In accordance with sections 113 and 116(1) of, and paragraphs 10 and 11(5)(a) of Schedule 12 to, the Local Government Finance Act 1992, the Scottish Ministers have made The Non-Domestic Rating Contributions (Scotland) Amendment Regulations which amend the Non-Domestic Rating Contributions (Scotland) Regulations 1996 (SI 1996/2070). These provide for the retention of revenue by local authorities which are operating TIF projects in Scotland and shall come into force on 31st December 2010.

Area of individual Projects

13. A local authority TIF project will operate within a clearly defined and agreed boundary from which the incremental non-domestic rate revenue will be raised. This area will have to be defined in a way that will differentiate between properties inside, and outside the line and provide a clear determination of whether any new development is within or outwith the TIF area. This will require a detailed plan showing the boundary. Each project will in practice have a unique area; a TIF area cannot be part of two TIF projects.

Incremental Revenues

14. It is anticipated that the incremental revenues captured as part of the TIF project will principally comprise non-domestic rates arising from development unlocked by the infrastructure investment. Local authorities may propose capture of other incremental revenues, for example car parking charges as part of the funding mechanism for any TIF project.

15. Incremental revenue in respect of non-domestic rates is measured in relation to a collectable baseline in the area prior to the TIF project, and net of an allowance for displacement of economic activity from outside the TIF area.

Collectable Baseline

16. The collectable baseline amount is defined in the Regulations (new paragraph 8B(3)(a) of Schedule 1 to the 1996 Regulations) and will be determined by the Non Domestic Rate Income payable in the TIF area prior to the commencement of the project from all the properties in the defined area at that point uprated to include the effects of the annual change in the non domestic poundage rate.

17. The collectable baseline is therefore:
The baseline target for business rate income within the TIF area. It will take into account all the standard deductions, including mandatory and discretionary reliefs and any additions resulting from appeals and late additions to the roll used in calculating business rate income. The calculation will be determined by the income generated in the TIF area for the year preceding the commencement of the TIF and will be revised each year to take into account any material change (e.g. change in the poundage, impact of the quinquennial revaluation review). A full description of how the collectable baseline will be calculated under the Regulations is provided at Annex A.

18. The collectable baseline calculation will be based on the 'mid-year' Non Domestic Rate return from Councils preceding the start of the financial year in which the TIF commences. The TIF "collectable" baseline target amount is therefore based on estimates from local authority returns of the amount that it will collect. Once the collectable baseline calculation for the year ahead has been set it will be updated each year to take into account annual changes in business rates poundage and may also be reviewed to take into account other material changes (e.g. changes in relief schemes or the impact of revaluations).

Displacement

19. The level of displacement of NDR generating occupancy from outside to inside the boundary of the defined red-line area is one of the key risks associated with any TIF project. If not accompanied by backfill of other occupancy into vacated properties outside the redline, the net additional NDR take at a national level is reduced by the level of this displacement. If all occupancy of property within the red line was as a result of movement of businesses from outside the line, displacement would be 100% and the purpose of implementing the TIF to stimulate economic growth would have failed. Even with a low level of displacement, the overall national take of NDR would not increase by as much as was captured in the TIF mechanism. There would therefore be a loss to the national NDR 'pool', rather than the intended no change as a result of the TIF enabled development.

20. The new rules in the 1996 Regulations for retention of NDR through TIF exclude an amount to represent displacement, being the extent to which the non-domestic rates paid result from relocation and are payments that would have been made to the authority or an authority in another local authority area had the TIF project not been in operation. The TIF capture mechanism will therefore specially exclude an amount agreed with the Council to represent displacement:

a) A single percentage figure for displacement will be adopted from the business case and should be the best available single percentage figure pre-estimate of the 'most likely' displacement based on economic evaluation of the anticipated development mix catalysed by the TIF investment.

b) The percentage figure agreed will then apply across all property types.

c) The risk around the accuracy of this pre-estimate for the TIF projects is taken by the Government which does not have any direct ability to manage the risk.

It will therefore be a requirement that actual levels of displacement be monitored by the Council over the life of the TIF project, along with the subsequent history of properties vacated as a result of such displacement, and the results reported annually to the Scottish Government, which will retain the power to vary the displacement figure if monitoring shows that the estimate is inaccurate.

Collected Amount

21. The "collected" amount is also defined in new paragraph 8B of the 1996 Regulations and will be the actual income collected for the year in the red line area net of deductions (including the deduction for the agreed level of displacement, reliefs and prior year adjustments). The collected amount does not therefore include any under-collection of rates due, that is a risk carried by the council. The final amount to be retained (Collected amount less the Collectable amount within the TIF area) will be subject to confirmation following submission of an audited return and can therefore be adjusted up or down.

Displacement Levels

22. Should the Council amend district plans, zoning, outline planning consents or similar, or otherwise encourage or facilitate development of a nature that could be expected materially to adversely affect the level of displacement from occupiers of properties developed within the red-line area from that mix anticipated in the business case, the Scottish Government will use this evidence to reassess the level of business rate income that the council can retain for the purposes of servicing the TIF project infrastructure borrowing costs.

Borrowing and the Repayment of debt

23. Approval of a TIF scheme by Scottish Ministers is an approval to retain business rates and not an approval for a local authority to borrow.

24. A local authority may only borrow to fund capital expenditure of the local authority. Capital expenditure is defined in accordance with proper accounting practices.

25. Where a TIF scheme funds third party capital expenditure, either directly or through the provision of grants or loans to third parties, the local authority must apply to the Scottish Ministers for a statutory 'Consent to Borrow'. This should accompany the business case. A statutory borrowing consent will not be available to fund revenue expenditure of either the local authority or third parties.

26. All borrowing for a TIF scheme shall comply with the requirements of paragraph 14 of Schedule 3 of the Local Government (Scotland) Act 1975. This requires any borrowing for the TIF to be carried to the Loans Fund. An advance from the Loans Fund will then be made in each year for the capital expenditure which is incurred for the TIF scheme. The advances from the Loans Fund must be clearly identified as the TIF scheme. The fixed period for the statutory repayment of the TIF advance is equal to the TIF scheme period.

27. One hundred percent (100%) of the “collected” amount must be used to finance the annual statutory charge for the repayment of the TIF loans fund advance, plus the interest on that advance (debt costs). Following the full repayment of the Loans Fund advance the local authority will retain 50% of any “collected” amount during the remaining TIF scheme period. The other 50% will be treated as being due to the Pool.

28. The local authority is required to maintain records showing the debt costs of the TIF and the “collected” amounts for each year. A cumulative value shall be recorded to be able to clearly identify when the Loans Fund advance has been fully repaid, after which the local authority may only retain 50% of the “collected amount”. This information will be collected by the Scottish Government on the NDR returns.

Monitoring and evaluation

29. Effective monitoring needs to be undertaken by the TIF Executive to allow for an audited calculation of Collected and Collectable amounts of monies gathered within the TIF area by the Scottish Government.

30. Further monitoring and evaluation of business development, displacement and economic impact by the TIF Executive is necessary as part of justifying each additional stage of investment in the enabling infrastructure stages. This information is also needed to enable the Scottish Government to assess the relative success of the TIF Pilot Scheme.

5th November 2010

ANNEX A

Calculation of the collectable baseline

1. As described in paragraphs 16-18 the baseline target for business rate income within the TIF area will take into account all the standard deductions, and additions used in calculating the annual Scottish business rate income. The difference being that the calculation will be restricted to the income generated in the TIF area for the year preceding the commencement of the TIF. This baseline figure will be revised each year to take account of the change in the annual poundage, and may also be reviewed to take into account other material changes (e.g. changes in relief schemes and revaluations) into account any material change including the change in the poundage.

2. Both the calculation of the collectable baseline and the annual collected amounts will require separate but similar returns to the standard non domestic rate returns currently used in the administration of the non domestic rate pool but covering the TIF area only.

3. A summary of the basis of the calculation of the collectable baseline target will be as follows:

Non Domestic Rates Return for the TIF Area
Mid Year return for the year prior to the commencement of the TIF (year 0)

	Gross amount of non domestic rates payable for year 0
less	all Mandatory Reliefs for businesses within the TIF area
less	all Discretionary reliefs awarded to businesses within the TIF area
less	other deductions including rates written off and refunds of overpayments
less	any prior year adjustments for bad debts or losses to appeals
plus	bad debts recovered or additional income from lost appeals
plus	any other deductions or additions not included elsewhere
	Total net collectable non domestic rates payable for year 0
plus	additional income to be generated from increased rate poundage for year 1
equals	**The total collectable baseline for the TIF area.**