



Report to the Partnership for Urban South Hampshire Joint Committee

Date: **26 June 2009**

Report of: **Stuart Jarvis, Managing Director of PUSH**

Subject: **Tax Incremental Finance (TIF) and Accelerated Development Zone (ADZ) Pilot Initiative: PUSH Response**

SUMMARY

This report sets out the details of a Government communication inviting expressions of interest for a pilot initiative exploring the potential application of Tax Incremental Finance/Accelerated Development Zones as a new way of funding 'upfront' provision of infrastructure to release sites which would not otherwise come forward for development. The report then recommends a submission of an expression of interest by PUSH.

RECOMMENDATION

That the Joint Committee:-

1. AGREES the proposed submission of an expression of interest by PUSH in becoming a pilot area for the Government's proposed initiative to explore the potential application of Tax Incremental Funding in the UK;
2. AGREES that the PUSH submission should be based on proposed Accelerated Development Zones at Dunsbury Hill Farm, Havant and Eastleigh Riverside (Northern Business Park);
3. DELEGATES authority to the Managing Director to finalise the submission documents and to conduct any follow up discussions or correspondence with relevant parties required to advance the proposal on behalf of PUSH.

INTRODUCTION

1. The PUSH External Funding and Resources Theme has been investigating potential new financial models and sources of investment for the last few months, particularly in relation to capital infrastructure funding. Tax Incremental Finance (TIF) is one such model, in which the property taxes generated by new development brought forward by initial public investment in infrastructure in a particular area (Accelerated Development Zone or ADZ), is retained locally. This approach has historically been widely used in North America to support local initiatives to bring land forward for development. This has also been looked at by PUSH, as a potential means of supporting Prudential Borrowing to provide initial infrastructure investment. Members may recall that this was briefly touched upon in the PUSH/TfSH Funding workshop session which was held last autumn. The potential for a TIF/ADZ scheme in England has been strongly championed by the Core Cities and the British Property Foundation, but it clearly has potential application beyond the Core Cities.
2. The Budget report published on 22 April 2009 set out the Government's interest in developing innovative funding mechanisms to support investment in growth and regeneration, including the principles of accelerated development and local retention of property tax. The Government set out its intention to explore with local authorities the potential for piloting such an approach, and to report back in the Pre Budget Report this autumn. A letter was subsequently sent by the Local Government Minister to Local Authorities in England on 18 May, inviting expressions of initial interest in becoming involved in any further exploration of the potential for application of Tax Incremental Finance in England (See Appendix One). The deadline for submissions was set for 30 June 2009, making the programme for preparing submissions very tight.
3. The letter was reported to the Joint Committee at its meeting in May, when authority was given for the preparation of a PUSH submission to be brought back to the Joint Committee for consideration at this meeting.

PROPOSALS

4. It was felt that non-domestic rates would be the most straightforward income stream to target, pointing at commercial sites as the best option for PUSH. As members may recall, PUSH commissioned work in 2008/09 on the potential for new delivery arrangements to bring forward employment sites, with particular focus on exploration of the special purpose delivery vehicle concept. Grant Thornton were commissioned to investigate the options, and to look at the best fit with the PUSH portfolio of strategic employment sites identified. SEEDA were also active partners in this study. The Grant Thornton work, which is due to be presented to the External Funding and Resources Panel at their next meeting, forms a significant part of the base case underpinning the proposed PUSH submission.
5. In formulating the recommended approach careful consideration was given to the Government's stated aims and selection criteria, and also to the critical success factors from a PUSH perspective. In particular, it was felt that any submission needed to contribute to PUSH economic development and regeneration priorities and had to be straightforward, deliverable and expose PUSH to minimum financial risk. In effect this meant that any candidate sites had to have full development plans in place with sufficient details available to answer questions on the impact, scale, costs and tax yields. In order to minimise financial risk, sites needed to be

capable of early implementation and take up, meaning that they would have existing strong developer interest. Clearly any proposed sites would also need to be a good fit with the Government's own criteria to maximise the chances of success.

6. The letter from John Healey set out clear criteria for the selection of potential pilots for further exploration of TIF/ADZ, and further enquiries have revealed some of the thinking which underpins this. Therefore these criteria have been used to evaluate the potential PUSH sites to form the basis of the recommended submission. The criteria are that projects must:-
 - be relatively small scale (e.g. in terms of infrastructure needs, up to a ceiling of £30M);
 - relate to NNDR in a well defined area,
 - be dependant on delivery of public infrastructure;
 - is unlikely to be funded by a different route;
 - must be 'mature' enough to be capable of early delivery (probably within 12 months);
 - 'helpful to government in thinking through the issues'

7. An initial sieving exercise was carried out to test potential sites against the PUSH objectives for this exercise, and the Government's criteria. At this stage only sites which were known to PUSH were considered, and then only on the basis of existing knowledge. In the time available it was not possible to do any further research or detailed consultation, therefore this initial sieving was somewhat crude and superficial. Sites were rejected if they did not meet the criteria which resulted in a short list of six sites which were then evaluated further.
 - Drivers Wharf/Meridian Site, Southampton
 - Eastleigh River Side (Barton Park)
 - Eastleigh Riverside (Northern Business Park)
 - North Fareham SDA Business Park
 - Daedalus, Gosport
 - Dunsbury Hill Farm, Havant

8. With the very limited time available to complete the submission in time to meet the CLG deadline, it was considered prudent to maximise time available for preparation of the submission, and therefore the evaluation of the short-list of sites and selection of the recommended ones was also relatively superficial. The selection of sites was discussed at a scheduled meeting of the External Funding and Resources Officer Group on 4th June. It was agreed that to maximise the chances of a successful submission, time and effort had to be sharply focused and therefore a maximum of two sites should be submitted. It was further agreed that the best candidates, in order of preference, were Dunsbury Hill Farm and Eastleigh Riverside (Northern Business Park). This judgement was based on primarily on deliverability, the fact that both sites have strong and current developer interest, backed up by advanced and detailed development proposals, both deliver significant spin off benefits for the surrounding areas in terms of employment and

economic activity and the combined bid in particular offers contrasting circumstances against which to evaluate the TIF/ADZ concept. The Drivers Wharf/Meridian site in Southampton was rejected because there was too much uncertainty over access requirements and there was no longer a developer actively engaged whilst the Fareham SDA was not capable of delivery within 12 months. Finally it was felt that the Eastleigh Riverside (Barton Park) and Daedalus sites were not as good a fit with the criteria as the two preferred sites, with significant uncertainty over deliverability in the timescale envisaged, and less 'mature' developer interests. These sites are still considered to be important to PUSH, but it is considered to be essential that the selection of sites for specific funding competitions maximises the chances of successful bids. With increasing competition for resources and sponsorship of initiatives, PUSH will need to adopt a 'commercial' approach, provided this is not contrary to its broad strategic ambitions and approach.

9. Dunsbury Hill Farm - Project Summary

This proposal is to designate Dunsbury Hill Farm, as an ADZ . The site comprises some 13.2 ha of strategic greenfield employment site, proposed as a high quality technology and business park, and located just off the A3(M) at Havant. The site was allocated for development in the Havant Borough Local Plan in 2005, and has also been the subject of an approved Development Brief. The land is in the ownership of Portsmouth City Council, and has been subject to advanced discussions with potential developers, immediately prior to the credit crunch impacts in mid 2008, which critically undermined the viability of the proposals being discussed at the time. The initial 13.2 ha (32.6 acres), has been identified by Havant Borough Council to be brought forward as a first phase of development to provide up to 46,500 sq. m gross (500,000 sq. ft) of B1, B1c, B2 and B8 accommodation. The initial phase also involves a hotel development and some related commercial development as well. It is intended that further development in future phases will take place and would also feature employment uses falling mainly in the 'B classes' in planning terms. An update on the future phases will be provided at the meeting. The site requires a new access road, which is estimated, along with servicing and other infrastructure start up costs, to require some £8M of up front infrastructure investment to bring the site forward. This up front funding is the critical viability issue for the site, and the reason for proposing its inclusion within the TIF regime.

10. Eastleigh Riverside (Northern Business Park)- Project Summary

The proposal is to designate the Northern Business Park, a 33 ha greenfield site within Eastleigh River Side, as an ADZ. The area is designated in the local plan for employment use and is currently in two corporate private ownerships. A proposal is actively under discussion with the principal owner to develop a major retail distribution centre as an anchor development for a new business park. The centre would be developed by an investor on behalf of a retail partner and would create around 1600-1800 jobs, nearly all of which would be additional. Road access is critical to this proposed development. The discussion with the landowners envisages that they (or an investor) would construct a new road to access the Northern Business Park as part of a planning obligation. This would deliver a critical segment of the Eastleigh River Side access road but would be dependent on investment *in the longer term* in the planned new road bridge into River Side that would continue the access road directly to junction 5 of the M27. No mechanism is currently available to finance the bridge and its approaches, and

the proposal is to use the TIF methodology to deliver the required funding. The proposed ADZ would include the whole Northern Business Park of which the proposed distribution centre would be a part. The business rate increment would therefore relate initially to the distribution centre but would also relate to other commercial development and, over a period of years, the expansion of activities by the airport.

11. More details of the proposals for the two sites are set out in Appendix Two of this report.
12. The actual submission to the Department for Communities and Local Government (CLG) has to be in by 30th June, and comprises a concise project statement setting out the case for the proposed site, and the prescribed information required by CLG. Following the Joint Committee meeting there will only be 2 working days to complete the submission and send it in via e mail. It is therefore recommended that the Joint Committee delegate authority to the Managing Director to complete and despatch the PUSH submission. It is also possible that there will be requests for follow up discussion with CLG officials after the submission, before any decisions are made. In order that PUSH can respond quickly to any such requests, it is further recommended that responsibility for such matters is also delegated to the Managing Director to act on behalf of PUSH, though clearly it will be important to involve relevant colleagues in this process.

CONCLUSION & RECOMMENDATIONS

13. The recession has had a profound effect on the economy of South Hampshire, and in particular on the development of both housing and employment sites and premises. PUSH has recognised the importance of finding new ways of supporting capital investment in infrastructure, and TIF has been part of the range of potential measure looked at. The current bidding round provides an opportunity to express an interest in taking part in any initial exploratory pilots which the Government may run, and therefore it is considered to be an opportunity to help secure early Government engagement with the issues in South Hampshire, and to help shape national policy on TIF. The sites proposed are considered to be complementary and interesting in terms of testing the potential application of the TIF concept in different circumstances. The fact that there is also an MAA in place locally, and that this is being refreshed in the coming months provides a potentially useful vehicle for taking the pilot forward, if this is of interest to Whitehall, and is therefore another potential advantage for the PUSH bid.
14. There will clearly need to be much more work done to develop these proposals further, if there is a positive response from the Government, but in the meantime, it is considered that there are significant advantages to PUSH in submitting an expression of interest along the lines set out above. It is therefore **RECOMMENDED** that the Joint Committee:-
 1. AGREES the proposed submission of an expression of interest by PUSH in becoming a pilot area for the Government's proposed initiative to explore the potential application of Tax Incremental Funding in the UK;
 2. AGREES that the PUSH submission should be based on proposed Accelerated Development Zones at Dunsbury Hill Farm, Havant and Eastleigh Riverside (Northern Business Park);

3. DELEGATES authority to the Managing Director to finalise the submission documents and to conduct any immediate follow up discussions or correspondence with relevant parties required to advance the proposal on behalf of PUSH.
4. AGREES that a further report be brought before the Joint Committee on this matter, setting out more detailed proposals and financial assessments, if the initial expression of interest gets a positive response from the Government.

Background Papers: - None

Reference Papers: -

Tax Increment Financing – Nov 2008 – Discussion paper by the British Property Foundation (www.bpf.org.uk);

Unlocking City Growth – Interim Findings on New Funding Mechanisms – 2008 – Report by PriceWaterhouseCoopers and the Core Cities Group (www.pwc.com; www.corecities.com)

Enquiries: For further information on this report please contact:- Stuart Jarvis, Managing Director of PUSH - Tel: 07736792647 or Email: stuart.jarvis@push.gov.uk

Letter to English Local Authorities re Tax Increment Financing (TIF) and Accelerated Development Zones (ADZ)



The Rt Hon John Healey MP
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18 May 2009

Dear Colleagues,

TAX INCREMENTAL FUNDING / ACCELERATED DEVELOPMENT ZONES

The Budget report published on 22 April contained the following announcement:

“the Government is interested in developing new opportunities for innovative financing mechanisms to support locally driven investment in growth and regeneration. The Government will work with interested local authorities and city-regions to assess the scope for accelerating development by allowing investment in infrastructure to be financed from the increased property tax base that could be enabled by the existence of improved infrastructure. As part of that, the Government will explore with local authorities the potential benefits, costs and feasibility of piloting such an approach. In the 2009 Pre-Budget Report, the Government will report on this analysis, and the options for taking it forward.”

The Government wants to make an early start on this complex exercise. We can only expect to reach sound conclusions if we can assess possible theoretical approaches in the context of real-world development projects. I must emphasise at the outset that we do not guarantee that any acceptable approach to ADZs will emerge: nor that, even if it does, Government will be able to support implementation of pilots sooner rather than later. Nevertheless, we want to discover, as soon as possible, whether authorities have projects in mind, on which some detailed planning has already been completed, that might eventually be candidates for piloting the new approach.

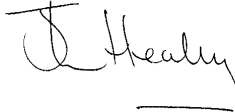
Appropriate projects will:

- (a) be relatively small scale (the permitted level of capital investment to be determined);
- (b) already be mature enough for there to be an early start on the ground ;
- (c) aim to deliver an enhanced non-domestic rating tax base in a well-defined area;
- (d) be dependent on the delivery of public infrastructure as part of the overall development;
- (e) be unlikely to find funding by another route; and
- (f) be helpful to the Government in thinking through the issues.

At this stage, we merely need a brief outline of such projects (about 3 pages), coupled with an assurance that the authority, and any partners it has in place, are prepared to participate in the exploration announced in the Budget on the no-commitment basis I have described above.

Whilst I am happy to undertake to keep in touch about this with all the authorities who express an initial interest, you will appreciate that it would not be practical for us to engage very many in detailed discussions.

Please send your reply by email to: TIF@communities.gsi.gov.uk by 30 June 2009 and address any preliminary enquiries you may have to the same address.

A handwritten signature in black ink, appearing to read 'J Healey', with a horizontal line underneath.

JOHN HEALEY MP

Summary Proposals

a) Dunsbury Hill Farm, Havant

Local planning authority: Havant Borough Council

Highway Authority: Hampshire County Council/Highways Agency

The project is based on collaboration between the local planning and highway authorities, strongly supported by the neighbouring Portsmouth City Council (unitary authority and land owner) and PUSH.

Size of site: Dunsbury Hill Farm is a greenfield site the first phase of which covers approx. 13 hectares, currently in the ownership of Portsmouth City Council. The site is clearly delineated both by land ownership and physical boundaries such as the A3(M).

Planning status: designated in the Havant Borough Local Plan (2005) for employment uses, and has a development brief approved by the local planning authority.

Likely development potential: Some 465,000 sq ft of employment uses (split roughly into 40% B1, 40% B2 and 20% B8), with a hotel and conference facility (55,000 sq ft) also proposed under phase 1 of the development scheme – with an additional 1 ha site allocated for an Enterprise centre.

Potential business rates: The Business Park rateable value will be provisionally estimated, and a figure provided at the meeting.

Proposed lifetime: 10-15 years to recognise lead times for developing major infrastructure and proposed airport development plans.

Likely PUSH prudential borrowing: up to a multiple of 10 times the revenue flow, depending on the detail of the project and the development risk

Potential job creation: To be advised at the meeting.

Cost of linkage to A3(M) and initial start up infrastructure to be financed by TIF: estimated to be £8M

b) Eastleigh Riverside (Northern Business Park)

Local planning authority: Eastleigh Borough Council

Highway Authority: Hampshire County Council

The project is based on existing collaboration between the local planning and highway authorities, strongly supported by the neighbouring Southampton City Council (unitary authority) and PUSH.

Size of site: the Northern Business Park, a greenfield site of approx. 33 hectares, currently in two separate private ownerships of 23.5 hectares and 9.5 hectares. The site is clearly delineated both by land ownerships and boundaries – rail lines, river and operational airport.

Planning status: designated in the Eastleigh local plan for employment uses. Eastleigh River Side as a whole is designated in the South East Plan as a strategic employment zone

Likely development potential: 40,000m² of B8 under negotiation with investment of around £35m in premises and an estimated £17m in fit out, including IT. Further B2/B8 possible. Potentially up to 12 hectares of airport-related uses (subject to negotiation) including aircraft hard standing, car parking, airport services and maintenance operations, and airport-related offices, value currently unknown

Potential business rates retail distribution centre provisionally estimated at £1.3m a year. Future development could increase this total to around £3m a year (in current prices) but because one owner would control access, and is unlikely to favour further early development, significant additional new investment is unlikely before 2015

Proposed lifetime: 15-20 years to recognise lead times for developing major infrastructure and proposed airport development plans.

Likely PUSH prudential borrowing: up to a multiple of 10 times the revenue flow, depending on the detail of the project and the development risk

Potential job creation: initially 1600-1800 jobs at distribution centre but potentially further 1,000 at Northern Business Park. Consultants have estimated 3,000 net additional jobs for Eastleigh River Side as a whole

Cost of owner's contribution to access road: to be delivered by developer of distribution centre but estimated to be £19m before risk and optimism bias

Cost of linkage to M27 to be financed by TIF: estimated to be £12-15m including land purchase, inflation and optimism bias of 30%

EASTLEIGH RIVERSIDE DEVELOPMENT PLAN

