

**TAX INCREMENT FUNDING : EXPRESSION OF INTEREST**

**To:** Cabinet

**Date:** 24<sup>th</sup> November 2009

**From:** Corporate Director (Finance, Property and Performance)  
and Service Director: Growth and Infrastructure  
Cambridge City

**Electoral division(s):**

**Forward Plan ref:** Not applicable                      Key                      No  
decision:

**Purpose:**

- To confirm Cabinet's approval to the expression of interest in the Government's Tax Increment Funding scheme.
- To share with Cabinet the opportunities benefits and risks associated with such a project.

**Recommendation:** Members are asked to approve the expression of interest in the Tax Increment Funding Scheme.

<i>Officer contact:</i>		<i>Member contact</i>	
<b>Name:</b>	Nick Dawe	<b>Name:</b>	Cllr John Reynolds
<b>Post:</b>	Corporate Director (Finance, Property and Performance)	<b>Portfolio :</b>	Cabinet Member for Finance, Property, Performance, People, Policy and Law
<b>Email:</b>	<a href="mailto:Nicholas.dawe@cambridgeshire.gov.uk">Nicholas.dawe@cambridgeshire.gov.uk</a>	<b>Email:</b>	<a href="mailto:John.Reynolds@cambridgeshire.gov.uk">John.Reynolds@cambridgeshire.gov.uk</a>
<b>Tel:</b>	01223 699246	<b>Tel:</b>	01223 699173

## **1. Background**

- 1.1 Business rates, also known as national non-domestic rates (NNDR) are a tax on non-domestic properties. Local councils collect them and pay them into a national pool. The Government then uses this money to fund local councils and other major local agencies through the general grant mechanism.
- 1.2 The rate of tax is decided centrally. The share of the tax received locally is decided centrally. Apart from a small benefit from the Local Area Business Growth Incentive Scheme (LABGI), local areas do not gain any direct financial benefit from increased business activity arising from growth and increased activity. There is therefore no “virtuous circle” between a local authority’s stimulation and support of growth and business activity and the receipt of increased levels of taxation arising from these activities.
- 1.3 In many European economies and the United States of America, public bodies benefit directly from business and sales taxes and can by a variety of means “borrow” against future tax receipts” to invest in the infrastructure to facilitate and nurture regeneration and economic growth. This borrowing against the future approach is commonly referred to as “Tax Increment Funding” (TIF).
- 1.4 In the 2009 Budget the Chancellor announced that the Government was willing to pilot a TIF approach in England (following significant lobbying from those charged with City regeneration projects (e.g. Birmingham) and delivering economic growth (e.g. Cambridgeshire).
- 1.5 The County and City together with Horizons have expressed an interest in being a TIF pilot.

## **2. Proposition**

- 2.1 A key motor for growth of the national economy, Cambridgeshire is keen to build on our strengths for local and national benefit during these challenging economic times.
- 2.2 Cambridgeshire is an area of outstanding economic performance and seemingly more resilient to the recession than some other areas. Cambridgeshire offers the potential for significant delivery of new jobs and homes over the next decade and beyond, with over 73,000 new homes planned between 2001 and 2021, and some 75,000 jobs.
- 2.3 Cambridgeshire is part of the London-Stansted-Cambridge-Peterborough growth area. Both the Regional Economic Strategy (RES) and the Regional Spatial Strategy (RSS) recognise the importance of Cambridge as a key engine of growth in the region. The regional strategies set out a vision for the region, with targets and priorities to drive forward in a globally competitive environment. The

vision is for it to be:

- Internationally competitive with a global reputation for innovation and business growth.
- A region that harnesses and develops the talents and creativity of all.
- At the forefront of the low-carbon and resource-efficient economy.

And known for:

- Exceptional landscapes, vibrant places and high quality of life.
- Being a confident, outward-looking region with strong leadership and where communities actively shape their future.

2.4 Tax Increment Financing has been an area of interest for Cambridgeshire for some time, and officers see it as a way of delivering further investment in public infrastructure, during a period where developer contributions will be under pressure, Government funding will be scarce, and the current grant mechanism fails to reward growth.

2.5 Officers believe that Tax Increment Finance is one of several measures that can help to ensure the delivery of continued sustainable growth. We have many projects in mind that we feel will meet the required business criteria, but our bid is around one particular project that offers high returns at low risk and which is ready to go.

### **3. Cambridge Station Area Project**

3.1 Officers from the County and City Councils have been preparing an outline bid under Tax Increment Financing and an expression of interest has already been submitted to Government. Further details of the proposal are as follows:

Project Outline	<p>The Cambridge Station Area is the main gateway to Cambridge and its hinterland, but is currently underwhelming and confusing, does not do justice to the vibrant city that it serves, nor does it create the right first impression for inward investors. A major redevelopment of mixed retail, office and housing (including affordable) is planned and has outline planning approval, subject to the s106 negotiations being finalised.</p> <p>Significant contributions are expected from the developers in terms of affordable housing and general</p>
-----------------	--

transport and public infrastructure contributions, and the opportunity arises to supplement these improvements with a number of major additional pedestrian and cycle links. Examples of these links are a new cycle/pedestrian link to the Leisure Park and a double pedestrian access to the proposed central island platform at the station (to include an eastern connection). In addition, there may be an opportunity to bring forward the central route of the Cambridgeshire Guided Busway (CGB) to provide the missing section to join up the northern and southern sections of the CGB route which are currently under construction. Together these improvements would be linked to major enhancements of the public realm, all of which would make this location into a showcase gateway to Cambridge and the wider region. Estimated costs £11m.

In addition to the specific requirements of the redevelopment of the Station Area, it is recognised that there are significant opportunities to improve the environmental quality and commercial viability and vitality of the streets linking the Station Area to the city centre and rest of the city. One example is the creation of a new green corridor scheme (including a green bridge over the railway which will provide a high quality landscape link to be used by pedestrians and cyclists) at Hills Road and comprehensive improvements of the whole corridor into the historic city centre. Estimated costs around £10m.

In addition to the above there is a probability of a significant public presence in the development area, possibly a historical archive centre, possibly a touch down centre (or both). Estimated costs chargeable to this bid £4m.

Start / End Dates	Would start on site by the end of the financial year, completed in phases over three years
Financial Summary	<p><b>Investment required</b> for transport gateway and associated public works <b>£25m</b> in phases over three years</p> <p><b>Loan principal and interest</b> that can be covered by <b>minimum</b> expected additional NNDR yield (allowing for phased letting and other discards) <b>£25m</b> repayable over 20 years.</p> <p><b>Loan principal and interest</b> that can be covered by <b>probable</b> expected additional NNDR yield (allowing for general improvement to values as well as increased activity) <b>£55m</b>, reducing repayment to less than 10 years.</p>
Risk and Sensitivities	<p><b>Financial case</b> is built around minimum expectations of additional NNDR take and the scheme is therefore <b>low risk</b>.</p> <p>Revaluation impact in 2010 likely to be positive (currently area has depressed values).</p> <p>Direct public interest in project also minimises risk, e.g. already secured investments in Guided Busway and Station upgrade. Additional contributions from developer to affordable housing and general infrastructure costs near agreement.</p>
Defined Boundary	Cambridge CB1 postcode area or possibly more precisely defined as per CB1 planning permission.
Benefit Summary	<p>Direct</p> <ul style="list-style-type: none"> <li>• Additional business and commercial space and revamp of business and commercial space on corridor to city centre.</li> <li>• Additional employment and tax-take associated with growth.</li> <li>• Modal transport shift (walking and cycling).</li> </ul> <p>Indirect</p> <ul style="list-style-type: none"> <li>• Social housing provision (by developer).</li> <li>• Reduced crime and vandalism (as area renovated and public space created).</li> </ul>

Situation without a TIF project	<p>Initial view is that development would stall for three to five years (as developer land acquisitions were at top of market).</p> <p>In addition without improvements to transport infrastructure and revamp of route to heart of city beneficial impact of development will be more constrained.</p> <p>Delayed tax take NNDR, corporate and payroll for Treasury.</p>
Transferable Learning	<p>Stimulating growth in an area of natural economic advantages but where market conditions (high land values and recession), are suppressing economic activity.</p> <p>Taking benefit from a station area development to the heart of a city regenerating not only the station area but key corridors as well.</p> <p>Enhancing already planned investment in hard transport infrastructure (rail and guided bus-way) to fully integrated cycling facilities and pedestrian plazas and walkways.</p> <p>The high returns and low risks of targeted small scale TIF investment proposals.</p>

- 3.2 We have an ambition that once “proof of concept” has been achieved that the approach will be used to assist in the funding of a series of further projects in the county such as Ely Southern By-Pass and the regeneration of Wisbech’s historic centre.

#### **4. Project Management**

- 4.1 It is appreciated that if we are successful with our proposal, rigorous project management will be required to deliver early gains and knowledge. Our project management approach and arrangements are outlined below:

Project Sponsorship	<p>The project would be sponsored through the existing Cambridgeshire Together / Making Cambridgeshire Count arrangements that involve all public and other bodies with an interest in delivering sustainable economic growth in the greater county area.</p> <p>The key sponsor will be Alex Plant, Chief Executive Cambridgeshire Horizons.</p>
---------------------	---

Project Team	A specific project manager will be appointed and Cambridgeshire County Council and other public bodies will provide economic development, finance, planning, transport and other professional support to the project.
Project Costs	The additional project costs will be in the order of £300,000 for the three years of the project.
Project Approach	The PRINCE 2 approach will be used to manage this project.
Benefits Realisation	<p>The project provides specific employment and public transport gains (as measured by standard costs benefit approaches) as well as general economic and specific payroll and general tax gains.</p> <p>Before, project target and after measurements will be taken for all key benefit areas and appropriate action plans to ensure delivery will be formulated.</p>
Risk Management	<p>The principle risks around the project relate to the timing and extent of additional tax yields.</p> <p>A prudent approach to calculating the investment and return calculations has been used to take account of timing risks, vacant units, business churn and other similar factors. Likewise standard contingency and risk planning approaches will be taken to capital investment.</p> <p>Because the pace of investment can be geared to the level of increased funding, risk in relation to this project compares well with other forms of growth funding (cash limited grant or section 106 contribution).</p>
Project Reporting	It is intended to write up the project to academic standard and in addition provide learning materials, a toolkit and provide limited consultancy for future authorities wishing to embark on a tax increment finance pilot.

## 5. Further Details

- 5.1 A copy of a draft prospectus prepared by the two authorities has been drawn up and copies are available on request.

## **6. Benefit Summary**

- 6.1 The public authorities in Cambridgeshire and our business colleagues believe that a tax incremental approach to funding infrastructure is not only a logical idea, it is one that suits our own economic circumstances perfectly and at minimal risk.

Gains for Cambridgeshire	Transport hub and gateway that will open up the City and the Sub-Region. Heavy bias towards public transport: (rail, buses, guided buses) and cycles and pedestrians.  Call on additional NNDR yields (not previously available to the Authority.  Early experience of a funding model (that may become more universal in future years).
Gains for the National Economy	Builds upon a national economic asset (the local Cambridgeshire Economy).  Significant increase in business activity, (Central Government will still gain from increases in payroll and corporation taxes).

## **7. Significant Implications,**

### **Priorities, Resources and performance including risk, Statutory duties and partnership working, Access and Inclusion and Climate Change**

- 7.1 Any issues regarding the above are dealt with in the body of the report.
- 7.2 There are no significant implications for public for engagement and consultation.

## **8. Next Steps**

- 8.1 A Government decision on which projects should be worked up to a pilot stage is expected by November.

**Background Papers : None**