



All Party Urban Development Group
www.allparty-urbandevelopment.org.uk

Press release

MPs call for local gov't bonds to fund regeneration projects and help during recession

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Contact: Kurt Mueller, 07841 080 991

Regeneration will stall for many years unless councils are allowed new ways to raise money to kick start development, a new report claims today.

It calls on Government to introduce a new funding method based on the successful tax increment financing model used across the USA. Without such intervention, the recession will severely damage regeneration prospects for years to come.

The report is the result of a Parliamentary inquiry by the influential All Party Urban Development Group, which received evidence from both public and private sector representatives.

Tax increment financing (TIF) is used in areas where the lack of infrastructure is holding back redevelopment. It allows councils to borrow money to provide the infrastructure and to pay it back from the increase in future business rates revenue that will come from the redeveloped area, effectively local government-backed bonds.

At the moment, business rates are paid directly to the Treasury. Legislation is needed to allow the extra rates income generated by TIF regeneration schemes to be ring-fenced and fed back to the local area. At the same time, public backing for TIF schemes is essential if the bonds are to be attractive to investors.

TIF schemes have been massively successful across the USA and are being mooted in the UK for a variety of high profile sites, including Battersea Power Station in south London.

Councils including Manchester, Birmingham, Edinburgh, Liverpool and Newcastle are also backing the proposals and provided evidence for today's report. The Homes and Communities Agency (HCA), the government's 'super quango' responsible for £18bn in house building over three years, has also taken part, along with property giants such as Grosvenor, Land Securities and Westfield.

Inquiry evidence proves conclusively that both public and private sectors are willing to work more closely together to ensure that the nation's towns and cities continue to see regeneration.

In addition to TIF pilots the report calls for:

- local authorities to take on more risk in regeneration schemes;

- private developers to think more strategically in their future schemes; and
- greater use of public and private sector partnerships .

This report follows on from a letter sent by London Mayor Boris Johnson, Transport for London, Lambeth and Wandsworth councils to the government urging TIF pilots, specifically to fund the Northern Line extension proposed in the redevelopment of Battersea Power Station.

Sheffield Labour MP Clive Betts, chairman of All Party Urban Development Group, said:

“We must not allow this recession to prevent regeneration. Piloting new funding models like TIF could open up many doors to new financing that simply would not be available otherwise. And the Pre Budget Report is the place to do it.

It is essential that councils take a more realistic view of what makes development projects viable and that risks – and ultimately rewards – will have to be shared out more.

Over the next decade, regeneration and development will be very different. Schemes will have to be more strategic and masterplanning more prevalent. The way to do this is through partnerships and improved working relationships between public and private sectors. Our inquiry has proven beyond a doubt that there is appetite for greater collaboration and sharing of risk in both the public and private sectors.”

Liz Peace, chief executive of the British Property Federation, responding to the report, said:

“TIF is something the industry has been looking at for years and this report gives welcome backing to the concept. Clearly there are numerous factors that affect the viability of development, but there is nothing more fundamental than infrastructure funding. We are already engaged with Government on taking TIF pilots forward, but it is essential that ministers look closely at the concept and take decisive action.

The recession provides a unique motivation for local authorities and private sector developers to get together and create new partnerships. Now is the time for creative thinking and greater collaboration.”

Peter Miller, Chief Operating Officer of Westfield, said:

“Regeneration schemes of the past decade in which private developers shoulder the majority of the costs up front are no longer viable under the current economic climate. Westfield supports a more collaborative approach between public and private sectors which will spread the risk and ultimately allow much needed regeneration projects to be brought forward much more quickly than under present circumstances.

“Infrastructure is a vital ingredient of regeneration and is fundamental to the success of major town-centre schemes. All of our projects in the UK involve a large amount of infrastructure and associated costs. With a typical scheme generating millions of pounds of tax revenue, it makes sense for new legislation to allow local authorities and the Treasury to use that money to kick-start the

development which would result in wide spread benefits, not least to the local community where such investment is so greatly needed.”

Peter Vernon, Chief Executive, Grosvenor Britain & Ireland:

“The All Party Urban Development Group’s Report on this important subject for UK cities is to be welcomed. We support TIFS as they offer a way of dealing with infrastructure and land assembly costs and risks. They also enable local authorities to reap some of the rewards from development encouraging them to promote regeneration schemes. The report also recognises risk as one of the key issues. Large complex town and city centre regeneration schemes have a lot of uncertainty attached to them. Genuine partnerships are about sharing risk and reward and in my view must be based on a fully open book approach between public and private sectors. This also requires local authorities to significantly change expectations about what schemes are capable of delivering in terms of planning and other community benefits. “

Jeremy Collins, BCSC President, comments:

“It is clear that the post-recession development landscape necessitates a fundamental and longer term shift in the relationship between the public and private sectors – particularly in terms of the way in which costs and risk are to be shared more equitably between the two.

“We fully support the piloting of new finance models such as TIFs and ADZs, but it is unlikely that there is any single solution to address the depth of the challenge on viability and funding. It is logical to recommend that local authorities are properly resourced with funding and guidance to enable them to explore the most appropriate investment vehicle to suit their needs – but they must be prepared to take on more of the financial burden.

“Factors which have been identified in our own research - such as strong partnerships, local leadership and experienced professionals – will remain central to ensuring that any model is effective in its delivery mechanism.”

Cllr Cousins Cabinet Member for Regeneration and Community Safety, from Wandsworth Council in London, which is hoping to create a TIF for the Battersea Power Station site in its area, said in response to the report:

“The Nine Elms area is London's biggest urban regeneration challenge. It will call for a variety of innovative approaches. The council has identified a major programme of investment in the transport infrastructure as key to the area's success and is looking closely at different funding options. We welcome today's report as an example of the new thinking that is needed.”

Cllr Warren Bradley, leader of Liverpool City Council, said:

"With the recent opening of Liverpool One, creating over 5,000 jobs and transforming the city, Liverpool's vision has shown just how vital regeneration and development is for improving quality of life. Because of the current financial challenges, such schemes would have major difficulty coming through now."

Liverpool City Council, in the written evidence to the group, said:

“The benefit of the ADZ model is that, subject to Government agreement on key details, it has the potential, as part of a cocktail of measures, to add considerably to essential resources to bring forward development – and therefore economic growth – which would not otherwise take place. The constraints on both public and private funding in the medium term will act as a brake on important physical developments which are pre-requisites for driving the recovery and long term knowledge and manufacturing related economic growth. ADZ, in conjunction with Regional Infrastructure Funds such as JESSICA, opens up the possibility of financing major long term developments to support these economic growth goals. They undoubtedly offer new possibilities in the longer term for local authorities to raise funds for investment in infrastructure.”

Cllr Whitby, leader of Birmingham City Council, said:

"Our city region of Birmingham, Coventry and the Black Country has already carried out considerable work on radical and unique ideas for an Accelerated Development Zone. Our proposals centre on a £1bn package of improvements to transport infrastructure, across six local authorities, which would open up huge areas for business and housing growth. Analysis already indicates the scheme could generate over 44,000 jobs whilst enabling us to compete for investment and jobs on equal terms against the most successful city-regions of Western Europe".

Birmingham City Council, in evidence to the group, said:

“Investor confidence is the key enabler of investment in ADZ models, and we believe there remains significant interest in the private sector in such vehicles. Where local areas have a demonstrable long-term commitment to regeneration, articulated within ambitious and established plans and strategies, and given strong support by the local authority and its partners, investor confidence is heightened. Visible and strong leadership; significant project management capacity; and a strong track record of successful collaboration with the private sector and other partners to achieve regeneration outcomes are all equally crucial elements in strengthening investor confidence in local areas. The eight Core Cities Chambers of Commerce are strongly supportive of the ADZ concept, and the Chief Executive of Birmingham Chamber led the working group that drew up our City Region’s ADZ proposal. The Government’s city-region pilots announced as part of the 2009 Budget offered an excellent opportunity for the Government to demonstrate its commitment to the continued growth and regeneration of key economic drivers. For the Birmingham, Coventry and Black Country City Region, this must be regarded as an opportunity missed, at least in the short-term.”

Cllr Richard Leese, leader of Manchester Council, said:

“If we are really serious about growing the UK economy out of recession and supporting the fundamental role that city regions play in this, then we have to enable our cities to raise the finance they need to put essential infrastructure in place. Mechanisms such as Tax Increment Financing have proved to be successful in many other cities around the world, and I am pleased that more and more influential bodies like the British Property Federation are now actively supporting this agenda.”

Manchester City Council, in written evidence to the group, said:

“Schemes such as TIFs are attractive because they provide a basis for raising significant public sector funds towards infrastructure improvements that our experience with existing models shows will be necessary if regeneration is to be sustained. Cities such as Manchester have been identified as having the capacity to achieve significant economic growth if the necessary infrastructure is in place.

The important role that the local authority plays in regeneration needs to continue during the recession – that is by providing a clear vision for the city, strong leadership, robust planning and regeneration frameworks and a clear set of priorities. It can also continue to show a commitment to the future by continuing to invest in the public realm and infrastructure in order to provide employment during the downturn and a platform for private sector investment once the economy improves. Local authorities also need to be planning for the future and making sure cities maintain their competitive edge by working in partnership to ensure they have the right kind of developments in place to capture emerging opportunities when things start to improve. “

Notes to editors

1. What is TIF?

Tax increment financing (TIF, also known as an Accelerated Development Zone – ADZ) is a mechanism for using future gains in taxes to finance the current improvements (such as new or improved infrastructure) that will create those gains. In simple terms, it enables a local authority to trade future tax income for a present benefit.

TIF schemes are favoured by local leaders because of the prospect that they offer for attracting investment to sites that might not otherwise get it. Sometimes the remediation and infrastructure related costs of brownfield sites can be so large that property developers are reluctant to get involved. In these circumstances, the only way forward may be for the public sector to help prepare land for development through up-front investments.

TIF is the mechanism by which this usually happens in the US.

TIF works on the principle that the supply of new or improved infrastructure usually leads both to new development and to an increase in the value of surrounding property, both of which serve to increase the level of property taxation in the area.

Within a designated TIF district this increased taxation (the “tax increment”) is captured and used to pay for the infrastructure that has been provided. Financing debt issued to pay for the project by utilising increased tax revenues can take up to 20-25 years but in other cases the timeframe can be much shorter.

2. About the All Party Urban Development Group

The All Party Parliamentary Urban Development Group is a dynamic non-partisan Parliamentary body of MPs and Peers committed to progressing urban renewal and sustainable development in the UK. It is chaired by Clive Betts MP [Lab], Rt Hon Nick Raynsford MP [Lab], Lord Richard Best [C-bench] and Robert Syms MP [Con].

The group was formed to raise the profile and understanding within Parliament of the urban regeneration process and the role that can be played by the private sector, particularly the property investment community.

The group's remit is to take a holistic approach in the examination of all the constituent elements that bring about truly sustainable communities, and to review policies that will increase the quality and pace of urban renewal and sustainable development nationally.

The British Property Federation (www.bpf.org.uk) provides secretariat services for the Group, and the Centre for Cities (www.centreforcities.org) conducts independent research for the Group's inquiry sessions.