SCOTTISH FUTURES TRUST

Tax Incremental Financing in Scotland

Date: December 2016

1 Introduction - TIF in Scotland

Tax Incremental Financing (TIF), seeks to capture locally generated, incremental public sector revenues (e.g. non-domestic rates or NDRs) that would not have arisen were it not for the delivery of "enabling" infrastructure investment that will unlock planned regeneration development, leading to sustainable economic growth. The key principle is that the public sector would raise finance for such enabling projects by pledging to meet debt repayments from such future incremental revenues and other income created by resultant development by the public and private sectors.

The use of TIF is predicated on a project's ability to deliver sustainable and inclusive economic growth. The use of TIF will normally be based on a 'but for' test i.e. that but-for TIF the anticipated outcomes from a regeneration and economic perspective, as envisaged by any supporting Business Case, would not occur or not occur in the timeframes which TIF would enable. A TIF project must therefore demonstrate, if it is to be taken forward, that the enabling infrastructure will support inclusion and sustainable economic growth that will generate additional (or incremental) public sector revenues (net of a displacement effect) that are capable of repaying, over an agreed timescale, the financing requirements of the enabling infrastructure.

1.1. The Policy Context

The role of infrastructure to stimulate sustainable and inclusive economic growth is seen within a number of Scottish Government strategies and emerging policies, including the Economic Strategy and the planning review.

Scotland's Economic Strategy, published March 2015, has investment in infrastructure (and people) as a key pillar of activity and identifies TIF as a mechanism for facilitating this investment. This strategy states the Scottish Government's overarching purpose of "*creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth*". The aims of TIF to deliver sustainable and inclusive economic growth, reflects the mutually supportive twin pillars within the strategy of "*increasing competitiveness"* and "*tackling inequality*". These pillars are underpinned by four priorities which further include the role of infrastructure: -

- Investing in our people and our infrastructure in a sustainable way;
- Fostering a culture of innovation and research and development;
- Promoting inclusive growth and creating opportunity through a fair and inclusive jobs market and regional cohesion; and
- Promoting Scotland on the international stage to boost our trade and

The role of infrastructure is also identified within the planning regime. The Scottish Government appointed an independent panel to review the Scottish planning system in September 2015. The panel published "Empowering Planning to Deliver Great Places" in May 2016 which identified six key themes for development, including taking an infrastructure first approach to planning and development. Linking infrastructure with planned development was seen as the "most significant challenge for the Scottish planning system at this time." In their response to the paper, in July 2016, the Scottish Government identified a white paper will be consulted on in Autumn/Winter 2016 in order to bring forward a Planning Bill in 2017. This will include an "approach to infrastructure delivery which recognises the development planning process". TIF recognises the difficulties in bringing forward infrastructure development and its role to deliver great places. TIF Pilots are being sought which are embedded within the planning landscape approval process and support the aims of Great Places.

TIF can therefore be seen to be a key lever in stimulating infrastructure investment, framed within a policy objective that delivers sustainable and inclusive economic growth.

1.2. Making the Case

TIF proposals should reflect the policy priorities identified and be evidenced 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's 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 the 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.

2. TIF Pilot Projects

The delivery and shape of TIF is being driven by a pilot process. This process was captured in Regulations presented by the Scottish Government. Under the Local Government Act 1992 ("the Act"), Scottish Ministers can make a Regulation in the form of a Scottish Statutory instrument ("SSI"). SSI 2010 Number 391 contains the Non-Domestic Ratings Contributions (Scotland) Amendment Regulations 2010 (the "Regulations") which provides for the retention by Local Authorities of an element of incremental NDR collections prior to it remitting the remaining NDRs to the Scottish Government and which ultimately allows TIF to become a reality. These Regulations came into force on the 31st December 2010. More information relating to these Regulations and the TIF capture mechanism can be found in Section 6.

The Regulations allow for up to six pilot projects. There are currently (December 2016) four pilot projects, of which three have received full approval and one approval in principle; providing a further opportunity for up to two further pilots.

2.1. Pilot Assessment

In order to identify the remaining two pilots, Scottish Government and SFT have agreed a process which enables the assessment of the relative merits of Local Authorities TIF proposals. Specific criteria have been established against which potential TIF Pilot Scheme Projects (TPSP) proposals will be assessed as fully detailed within the TPSP Template. This includes mandatory criteria which proposals must evidence their compliance with prior to formal scoring: -

1. **TIF PROJECT BACKGROUND**
   - Pilots must be of a primarily non-retail nature (although they may have smaller elements of retail space built in);
   - Pilots should comply with current Scottish Government priority areas and related strategies including key sectors; which may include single or multi-sectors as appropriate - http://www.gov.scot/Topics/Statistics/Browse/Business/KeySectors;
   - There is a compact red-line area, limited to proposed infrastructure and identified development sites. This red-line area should primarily include vacant and/or derelict land.
   - No submission can include assets currently being funded by SG or which intersect with spatial boundaries of existing TIF or Growth Accelerators.

2. **PRIVATE SECTOR INVESTMENT, ECONOMIC, FISCAL AND INCLUSION IMPACT**
   - There is evidence of engagement with the private sector; with preference given to schemes which have well-developed arrangements (for example contractual agreements/memorandum of understanding) in place with private sector partners (subject to state aid compliance), and evidence of the likelihood of early private sector related activity.
   - Demonstration of the wider benefits which may be applicable to the project.

3. **FINANCIAL VIABILITY**
   - There is clarity around co-funding and the funding gaps;
   - Authorities confirm agreement to standard method of applying displacement;

4. **KEY RISKS & POTENTIAL MITIGANTS**
   - Confirmation that an initial state aid position has been sought and that there are no significant concerns;
   - Internal governance and resourcing arrangements in place to develop and deliver the proposal.

5. **TIME SCALES**
   - No proposal can include outcomes which are dependent on successful award of any ongoing / current competition/selection process e.g. The Medicines Manufacturing Innovation Centre;
   - Evidence that the proposal is well developed. It should be noted that if progress to full approval has not been obtained within 6 months of award of pilot status, the pilot status will be removed. In addition, first TIF Investment will be expected to occur within 6 months of full approval, beyond which again pilot status may be removed.

Only proposals which initially meet these criteria will proceed to being considered. Further detail of what information is required within each section is in contained in the TPSP Response Template available on SFT's website http://www.scottishfuturestrust.org.uk/publications/tax-incremental-financing/

2.2. Information Sessions & Process

It is anticipated that the pilot assessment and awarding process will take place during 2017/18. In support of such a process, SFT would propose that it holds workshops across Scotland to assist Local Authorities in their understanding of TIF, the pilot identification process, the preparation of any outline TIF proposals and how the successful projects will be chosen. SFT are also happy to provide ongoing advice and guidance during this period.

Thereafter, SFT will work closely with those Local Authorities asked to develop a Business Case. This will include providing advice to Local Authorities on the nature of the financial, economic and other analyses required to develop the supporting TIF Business Case. SFT will also act as an ongoing challenge and validation function of key approaches and assumptions underpinning any proposals. The Business Case, however, must remain the work of the Local Authority.
Ultimately upon the submission of a final Business Case to SFT for TIF, the following process will be followed

- SFT will make a recommendation to Scottish Ministers on the viability of the potential pilot project that the proposals are capable of acceptance.
- Scottish Ministers will then consider the Business Case and supporting SFT recommendation and approve, or otherwise, the Business Case. Approval at this stage may be 'in principle' or 'in full',

depending upon the elements of the Business Case to be addressed prior to commencing the actual delivery of the public sector enabling infrastructure.

- Upon the 'in full' formal approval of any pilot project Business Case, an approval will be granted from Scottish Ministers by way of a written TIF agreement between the Scottish Government and the Local Authority.

All Business Cases must be internally supported by the appropriate committees prior to final submission to SFT and Ministers.

3. TIF Principles

The key principles of a TIF project area as follows.

Principles:

a) A particular physical development with the ability to deliver sustainable and inclusive economic growth could be unlocked through investment in infrastructure which would not currently be funded by traditional means;

b) An additional stream of public sector income (generally non-domestic rates or "NDRs") is identified which will arise as a result of the infrastructure investment; and

c) The TIF mechanism provides a framework for that additional income stream to be captured to repay debt raised by the Local Authority to invest in the unlocking infrastructure.

Should a Local Authority believe that it can develop a TIF proposal, based upon the above principles, it should consider the following key elements in further assessing TIF's suitability and its ability to develop a pilot project. This should be done in conjunction with discussions with SFT:

Key Considerations:

a) Identify a geographic area of development that would lead to sustainable and inclusive economic growth, that could go ahead subject to investment in infrastructure that cannot currently be funded through existing mechanisms. This should include considering the level and type of private sector development that could be enabled, the identity of any key partners and how any proposals would 'fit' at a local, regional and national level;

b) The development will be relatively biased towards commercial rather than residential development due to the use (primarily) of NDRs as the income stream captured to fund infrastructure;

c) Identify the key enabling public sector infrastructure assets ("TIF Assets") required to unlock the development that are not able to be funded through traditional means (Local Authority budgets / Section 75 etc) – with high-level costing;

d) Calculate the additional economic growth (post the impact of displacement, deadweight and leakage) that could be delivered by the development to show positive economic contribution;

e) Identify the potential NDR income from the resultant public and private sector development;

f) Using PWLB financing assumptions, identify whether the stream of NDRs, adjusted for anticipated displacement (see later and it also recommended that displacement be discussed with SFT) is likely to be able to repay the debt that would have to be raised to invest in the unlocking infrastructure;

g) Consider whether the public sector TIF Assets identified are of a nature that the Local Authority can finance through prudential borrowing;

h) Understand the key risks involved in entering into a TIF project e.g. ability of the private sector to deliver its proposed development, the timing of public sector funding / finance versus investment by the private sector, etc; and

i) Determine the potential structures and / or appropriate approaches to delivering the proposed TIF. In particular, careful consideration of the procurement strategy will be required (and consideration as to how this might link to state aid).

j) Address any state aid considerations. It is the Local Authority's responsibility to ensure the TIF project complies with state aid regulations. To this end the Local Authority should seek advice from the Scottish Government State Aids Unit.

If this initial analysis identifies the potential for TIF to be applicable then a Local Authority should submit a high level outline of its TIF proposal to SFT (as per the letter sent to each Local Authority's Chief Executive detailing the pilot selection process and criteria). It is envisaged that this high level submission should be completed internally i.e. without the need for external cost. If advised by SFT to proceed, the Local Authority should then proceed to developing a detailed Business Case.

Detailed discussion with SFT is recommended throughout the development of the TIF Business Case.

4. TIF Business Case Structure

Each supporting Business Case will be assessed by SFT and must present to the Scottish Ministers a clear Value for Money ("VfM") proposal for any project to receive approval to proceed. The following provides an outline of the required TIF Business Case structure. The Business Case should also clearly state any approvals being sought by the Local Authority of Scottish Government. This will primarily be in the form of the right to retain any incremental NDRs.

4.1. Introduction

Setting out the purpose of the Business Case, structure of the document and background

This should include details of:

- Key sponsor(s)
- The vision, aims and objectives of the TIF

4.2. Context of the Scheme

This section should:

- Outline the growth vision for the proposed TIF area and how the proposals fit into a wider development plan for the area
- Consider how the TIF delivers / fits with other local, regional and National policy objectives and initiatives
- Identify key stakeholders, land owners and partners and their likely roles and resources in relation to the TIF
- Describe the scope of the TIF proposals e.g. a description of the proposed TIF area (or "Red Line"), infrastructure needs and early priorities, expected overall private sector development unlocked
- Highlight the But-For case (i.e. but-for TIF the anticipated regeneration and economic growth would not occur, as envisaged by the Business Case, or not occur in the time frames which TIF would enable) – setting out the status / funding sources and prospects for the area / proposals without TIF (the "counterfactual") and the range of options considered in determining the suitability of TIF for the proposed area – i.e. an options appraisal in terms of considering other forms of delivery / financing for the proposed area. This should also relate to economic analysis undertaken in support of the TIF proposals
- The likely private sector / additional development that would be created by the TIF enabling infrastructure / investment and its certainty, both in terms of construction and revenues.
- Details of the likely revenue sources created by the TIF, along with the rationale for their availability and use

4.3. Infrastructure Investment Plan and Prioritised Assets

Details should include:

- The overall infrastructure requirements within the TIF area, classified along the lines of enabling (i.e. necessary to initiate development), reactive (i.e. necessary in the longer term) and enhancements (i.e. quality of life enhancements)
- A high level description of the proposed infrastructure (TIF Assets) and why it is believed that they will unlock the envisaged Business Case outputs, why the public sector assets themselves are considered enabling and why the chosen 'package' of TIF Assets will maximise sustainable and inclusive economic growth.
- Costings (including risk allowances and optimism bias) for infrastructure and details of any supporting advice, work or consideration to date
- Proposed programme (referring to wider development and prioritised programme)
- Sources of finance and related certainty, particularly if private sector funding is utilised
- Any existing / other available sources of funding and finance, both public and private (out with the TIF) e.g. s75 contributions, existing budgets, efficiencies, etc, with an aim of identifying the **funding gap** for the infrastructure elements potentially financeable through TIF (both for an overall and prioritised assets basis).
- Proposals around any prioritised assets / infrastructure, if applicable, including basis of selection and related options appraisal, potential revenue outputs and costs
- How the principles of regeneration and sustainable economic development have been incorporated into any proposals.

4.4. Economic & Fiscal Analysis

The outturn of the economic analysis should be incorporated into the financial analysis, to understand the revenue generation capability of the TIF area and its ability to meet its obligations going forward (e.g. debt service)

The ex-ante assessment of the economic case should incorporate:

- Assessment of the market failure / failure of equity addressed by the intervention
- An assessment of the counterfactual i.e. what would have happened if the TIF did not occur
- An assessment of the economic impact of the intervention showing minimum, most likely and maximum impact over a 25 year appraisal period
- An evaluation of factors such as anticipated displacement, deadweight and leakage as a percentage of economic impact at both a local and regional level showing minimum, most likely and maximum cases – noting that as the geographic area increases, the certainty of analysis reduces

- In terms of potential impact at a local, regional and national level, consideration should be given as to how any TIF proposals will deliver additionality and benefits at these different levels, the likely form these will take and how they fit with the strategic objectives of the key TIF parties, including Scottish Government. For information purposes, indicative displacement factors have been included in Appendix 5 in relation to different sectors. These are based upon the Scottish Enterprise 'Additionality and Economic Impact Assessment Guidance Note'. Consideration will need to be given to the applicability of these indicative levels for any specific project. Any proposed movement from these levels will need to be captured within the business case.

- Information on the fiscal outputs

Further guidance in relation to the economic analysis is contained within Section 5.

Economic assessments to be carried out:

- Specifically based upon the circumstances of the TIF scheme (not from historic parallels)
- Utilising interviews with and submissions from key stakeholders, local organisations / bodies affected by the TIF and other relevant parties
- According to recognised best practice methodologies, and comparison against the existing evidence base (e.g. BIS additionality guidance)
- By an objective economist with a recognised track-record of economic assessment for public bodies

4.5. Financial Analysis

Financial analysis of the TIF proposals should be undertaken through modelling the project over a 25 year period. The Financial Model and its outputs should include:

- Uses of funds linked to the TIF infrastructure investment plan
- Forecast tax increment available for financing to include NDRs and other identified incomes, net of the economic assessment of most-likely displacement (the "TIF Revenues")
- Sources of funding e.g. s75 contributions, other existing forms of funding (both public and private), prudential borrowing, including deliverable draw-down / repayment assumptions and a funding cost buffer;
- Profiling of costs and revenues
- Key assumptions (e.g. cost and source of any funding, inflation) and ratios (where applicable) utilised in the Financial Model
- Details of the proposed levels of NDRs and other identified incomes utilised by the TIF e.g. % of NDRs, % of transport revenues
- Details of any request for underwriting / guarantee at a Government level, including details of potential exposure for Government, and the basis upon which the position would be remedied going forward

- How, if applicable, would the public sector share in the value creation / outcomes of the private sector development

- Details in relation to the sharing of enhanced outcomes (i.e. greater upside than forecast e.g. increased property values from initial infrastructure investment and overage provisions), proposed mechanisms and who would benefit (i.e. SG, the Local Authority, Developers, etc)

- Sensitivity analysis considering key variables: delay, interest rate movements, inflation rate movements, displacement range, increased construction costs, yield/void rates, etc

4.6. Risk

Consideration of risk: including risk identification, allocation and management. Such elements may include:

- Key viability risk considerations including:
    - LA vires (including asset ownership issues and access to funding);
    - Procurement approach and strategy;
    - State aid (the Local Authority is invited to seek advice directly from the Scottish Government's State Aids Unit, including SFT in any meetings or written advice);
- Key delivery risk considerations including:
    - Linking infrastructure to development
    - Incentivising the development partner
    - Project risks e.g.:
        - Cost over runs
        - Delays in starting / finishing construction (N.B. the TIF Agreement will specify a longstop date for the occurrence of the first TIF Investment. If the first TIF investment has not occurred on or before this date the approval contained in the TIF Agreement shall cease to be valid.
        - Lower than anticipated occupancy rates
        - Changes in economic environment

- Details of key agreements / contracts likely to be required, and where applicable / available, an outline of the basis of such documents
- The Business Case should include a description of the opportunities for transferring risk from the Local Authority to the private sector (and the likely pricing of that risk)

4.7. Delivery

This section should consider:

- Delivery structure /options
- Proposed governance and management structures and roles of key parties / individuals. (See below for further Governance requirements)
- How the overall structure addresses the key risks and issues identified under section 4.6
- Procurement and how VfM will be delivered / assessed
- The delivery section should also consider:
    - How will the TIF be monitored and managed at the project delivery level e.g. details of likely KPIs, reporting regime
    - Resourcing at different levels e.g. Local Authority, overall delivery and any, if required, additional vehicles
    - Internal / external resources available, and their suitability, for the delivery / management of the TIF
    - How both the public and private sectors are incentivised, and details of any underlying payment mechanisms, key payment milestones, etc
    - Details of Key Individuals

4.8. Governance

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 standard approach has been adopted from the initial three pilots which will see a 'TIF Executive' established to perform a monitoring and evaluation role of the TIF project. The TIF Executive will include representation from the Local Authority, the Scottish Government and SFT and will meet no less than quarterly unless otherwise agreed. The TIF Executive will

- Review and monitor the progress of the TIF Project and provide advice and guidance where necessary;
- Review and consider the output of the reporting regime which will be set out within the TIF Agreement between the Local Authority and Scottish Government.

- Review the output of the Local Authority's displacement monitoring (annual requirement)
- Consider the scope of any changes or amendments to the TIF project and/ or the Business Case, and make any recommendation to Scottish Government.

The information collated by the TIF Executive will be used by the Scottish Government to assess the relative success of the TIF Pilot Project.

In addition to the TIF Executive, it is likely that there will be some form of TIF Delivery Board. Membership of the TIF Delivery Board should include the Local Authority, its private sector developer(s) / partner(s) and others as appropriate.

The key functions of the TIF Delivery Board are expected to include:

- Developing & co-ordinating the TIF Infrastructure Programme and the associated planning and approval processes;
- Ensuring the development programme reflects the objectives of key stakeholders;
- Design development, procurement, tender evaluation and award;
- Project management and delivery;
- Ensuring finance is available; and
- Monitoring business development/ economic impact

4.9. Next Steps

Should include discussion of:

Programme and key milestones

- Critical next steps towards delivery
- The strategy for taking forward the project and responsibility for doing so
- Items to be agreed which will be documented in the written 'TIF Agreement' to be executed by the Local Authority and the Scottish Government. N.B. this written agreement will take the form of a letter to be signed by both the Local Authority and the Scottish Government and will cover the following key items:

  - Key Dates
  - Red-Line Area
  - TIF Assets
  - Collectable Amount
  - Displacement /Displacement Review
  - TIF Revenue
  - Compliance
  - Governance
  - Roles & Responsibilities
  - Reporting Requirements
  - Amendments/ Business Case Revisions.

4.10. Conclusion

Summary of the case

4.11. Annexes

Detailed analysis and assumptions to support the case should be inserted / attached. This should include, but not be limited to:

- The outturn of any options appraisals in support of decisions
- The Financial Model Outputs/ Summary Sheet
- The Economic Impact Assessment and details of stakeholder Surveys used.
- Detailed Red Line area

5. The Supporting Economic Case Guidance

5.1. Introduction

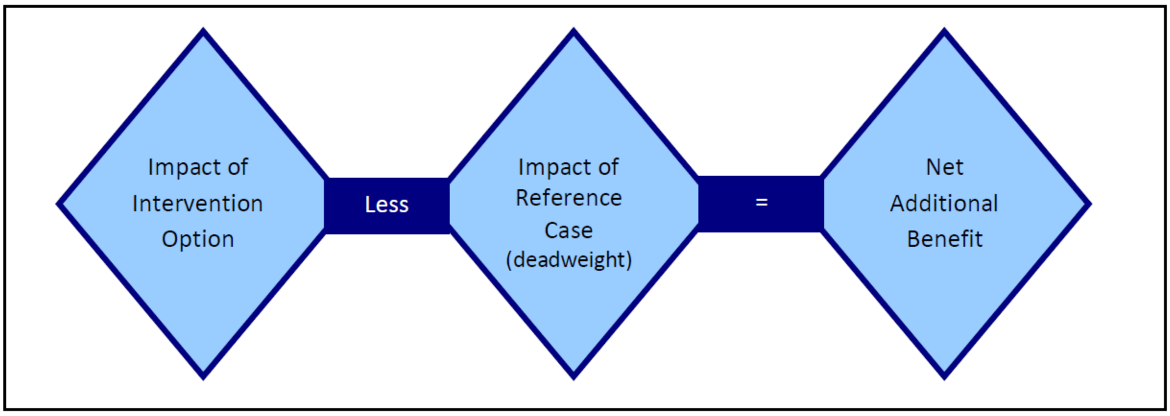
An integral part of any TIF Business Case is the production of an economic case supporting the TIF proposals. In this regard, it is important that TIF projects produce consistent, high quality estimates of the economic benefits from the interventions of TIF in order to:

- Assist Scottish Government, SFT and other key stakeholders in understanding the likely sustainable economic growth that projects believe can be created
- Demonstrate the additionality of any proposed project;
- Identify key variables and related risks;
- Enhance the TIF business planning and decision making process;
- Identify good practice; and
- Contribute and allow the development of standard TIF documentation and processes.

This Section provides a synopsis of how the economic case for TIF should be addressed and how additional benefit, or additionality, from an economic development perspective should be assessed. The economic impact guidance is based upon the Scottish Enterprise Additionality and Economic Assessment Guidance Note 'A summary Guide to Assessing the Additional Benefit, or Additionality, of an Economic Development Project or Programme' (2008), and further guidance and best practice as detailed later in this Section and as such should be read in conjunction with these documents. This guidance also considers how the outturn of the Economic Impact Assessment (EIA) should be incorporated into the financial modelling of any TIF proposals.

5.2. What is Additionality and How is it Measured?

Most interventions will have both positive and negative effects, and therefore these impacts need to be taken into account when assessing additionality. The additional benefit of an intervention is basically the difference between the reference case position (what would happen anyway or 'deadweight') and the position if and /or when the intervention option is implemented. Such an assessment can be summarised as follows:



Additionality may relate to:

- Scale: additionality is greater under the proposed intervention e.g. more jobs or greater business turnover.
- Timing: an event or activity may happen earlier than would have been the case.
- Quality: the quality of any benefits may be different through any intervention e.g. skills are enhanced or salary levels are enhanced.

Additionality is relevant to all of TIF's (also known as the intervention) intended outputs, outcomes and impacts. These should be set out in the TIF proposal and supporting documentation, and should include a range of performance measures. TIF is generally concerned with delivering broad outcomes and impacts (e.g. delivering enabling infrastructure) and assessing the net additionality thereof of specific related outputs such as employment, turnover and floor space created, however, consideration should also be given to elements such as changing behaviours and attitudes where possible. Whilst the latter are hard to measure, and may only occur after the event, it is important that these benefits are assessed and reflected in judgements and decision-making.

The assessment and projected outturn of any intervention should be captured in an EIA, which should include the following:

- An assessment of the market failure / failure of equity addressed by the intervention;
- An assessment of the counterfactual i.e. what would have happened if the TIF did not occur or deadweight;
- An assessment of the economic impact of the intervention showing minimum, most likely and maximum impact over a 25 year appraisal period; and
- An evaluation of factors such as potential displacement, deadweight and leakage as a percentage of economic impact at both a local and regional level showing minimum, most likely and maximum cases – noting that as the geographic area increases, the certainty of analysis reduces
- In terms of potential impact at a national level, consideration should be given as to how any TIF proposals will deliver benefits nationally, the likely form these will take and how they fit with the strategic objectives of the Scottish Government

As part of the process of assessing factors such as deadweight and displacement, evidence from other regeneration / development plans outside of the Red Line should be considered to inform the assessment. Consideration should also be given to the potential impact of other future known projects on the underlying assumptions of the TIF project under consideration.

In terms of the production of such a document, this should be carried out:

- Specifically based upon the circumstances of the TIF scheme (not from historic parallels);
- Utilising interviews with and submissions (e.g. meetings, surveys, questionnaires) from key stakeholders, local organisations / bodies affected by the TIF and other relevant parties;
- According to recognised best practice methodologies as detailed in this paper; and
- By an objective economist with a recognised track-record of economic assessment for public bodies.

5.3. Over What Time Should Additionality be Calculated for TIF

The time period for any TIF EIA should relate to the life of the intervention and be sufficiently distant to cover all the important costs and benefits. For TIF, it is envisaged that this time period would be 25 years, from the first TIF Investment (deemed to be the first capital investment by the Local Authority in respect of the TIF project) which would reflect a similar period for other long term, large scale regeneration projects.

5.4. The Reference Case, Deadweight and Intervention

The Reference Case

The approach to assessing the **TIF reference case** (also known as the 'base case') and the intervention option(s) should be forward looking, estimating the likely outturn of future events. The reference case is the situation, in terms of benefits, that would occur if the intervention was not implemented i.e. what would have happened anyway, without the intervention. The quantification of outputs, outcomes and impact under this reference case is known as **deadweight or counter-factual**. The starting position for making an assessment about the likely reference case is to identify all the factors that may influence the intended benefits. For example:

- Likely or past change in social, economic and environmental variables;
- The nature of the activity being considered;
- Evidence from past changes in the local and comparator areas;
- The extent of market failure in the area concerned;
- Impacts of health and safety, legal or other statutory requirements; and
- Impacts of other relevant existing and/or planned investments/policies by the private or public sector.

The Baseline

An early, and key, step in carrying out any TIF economic appraisal is to measure the **baseline (or starting) position**. The initial baseline is the state of the economic, social or environmental context at the beginning of the intervention period. The initial collectable baseline amount is the NDR payable in the TIF area prior to commencement of the TIF project, from all properties in the defined Red Line area at that point up rated to include the effects of the annual change in the non domestic poundage rate.

In terms of this initial baseline position, it is perhaps unrealistic to assume that nothing would happen if an intervention did not go ahead, therefore the reference case could be better or worse than the baseline position depending on the view taken, as outlined above, of what economic, environmental or social changes will take place over the intervention period.

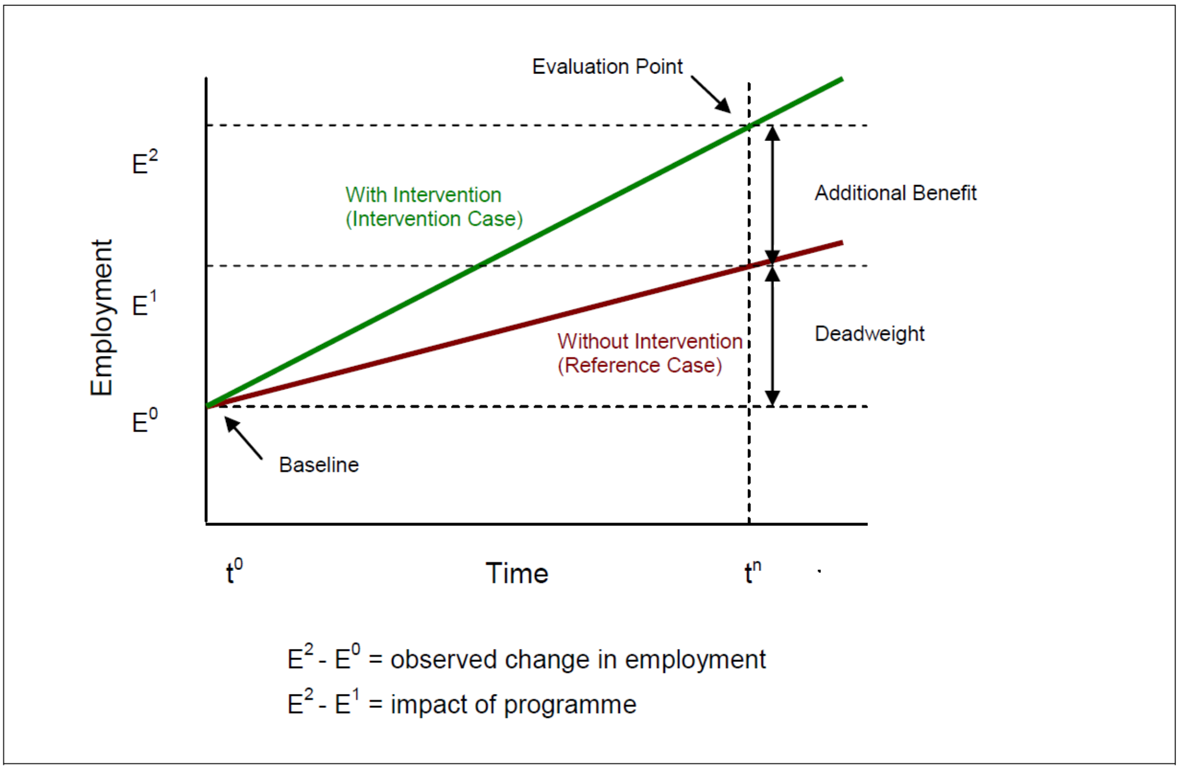
Intervention

The **intervention case** for TIF is the option, or options, that the public sector might implement in order to achieve its objectives. In all likelihood for TIF, this will relate to the 'but-for' option, meaning that the identified enabling TIF scheme, and related infrastructure, can only be delivered through the creation of the TIF mechanism, and cannot be wholly funded by finance from the private sector and /or alternative public sector funding. For a TIF economic appraisal, an estimate will therefore need to be made of the level of benefit that would be produced under this 'but-for' option, or any alternative options, which may include a site wide assessment (i.e. all proposed infrastructure within the Red Line' (or the prescribed TIF area) or a prioritised assets approach (i.e. a series of chosen / preferred assets within the Red Line), for example.

Gross Direct Effects and Deadweight

An initial assessment of the reference case and interventions option(s) will lead to the identification of the **gross direct effects**. These are the outputs from the reference case and intervention option before accounting for additionality.

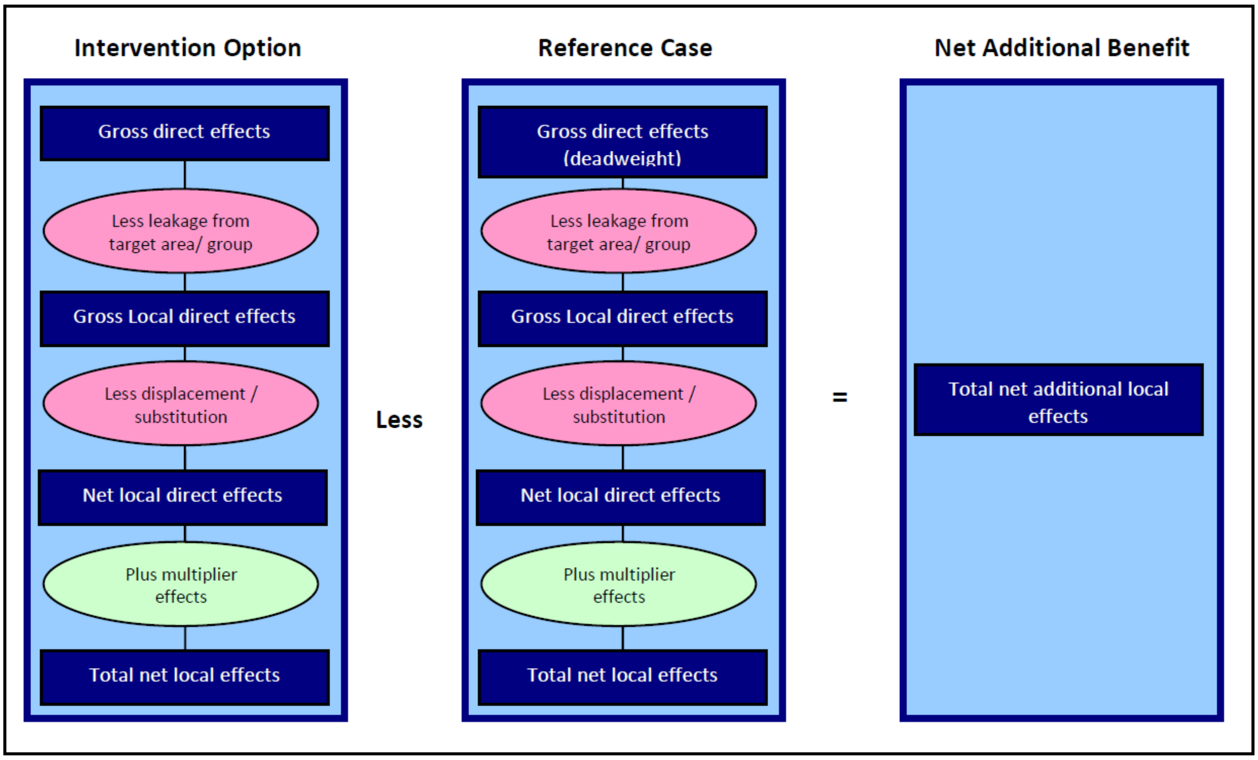
The following diagram captures the above to demonstrate the process of assessing additionality and the projected outputs, outcomes and impacts:



Source: Adapted from European Commission (2003) The Evaluation of Socio-Economic Development, The Guide, December European Commission, Directorate General for Regional Policy: Brussels (www.evalsed.info).

Adjusting the Reference and Intervention Cases

When assessing the additional benefits of an intervention, care has to be taken that like is compared with like. Thus, the gross direct benefits generated under both the intervention and reference cases, must be adjusted for a number of factors, where relevant, including leakage, displacement and multiplier effects. The various adjustments to the reference case and intervention option(s) are then combined to provide an estimate of additionality. This can be summarised as follows:



Source: Adapted from English Partnerships (2004) Additionality Guide, A Standard Approach to Assessing the Additional Impacts of Projects, Method Statement, Second Edition, September, English Partnerships: London p5.

The Scottish Enterprise Additionality & Economic Impact Assessment Guidance Note (2008) provides templates for calculating and reporting on additionality, as well as guideline ranges for deadweight, leakage and displacement.

Leakage

Leakage is the proportion of outputs that benefit those outside of the intervention target area or group, or Red Line' in the case of TIF. As an initiative, TIF seeks to make an impact at a local or regional level, and therefore leakage should be considered at this level. However, the effects may also be required to be considered at a national level.

Displacement

Displacement is the proportion of intervention benefits accounted for by reduced benefits elsewhere, and for TIF, this should be considered at a local, regional and national level. Displacement arises where the intervention takes market share, labour, land or capital from other existing businesses out with the TIF Red Line'. For instance this could include the displacement of businesses (i.e. business occupancy) in to the Red Line' area from out with it, thereby reducing the existing NDR take at a national level. The level of displacement of NDR generating occupancy from outside to inside the Red Line area is one of the key risks to any TIF project.

Further information relating to the calculation of displacement for TIF projects can be found in section 6.4 (Enabling Legislation & Capture Mechanism).

Economic Multiplier Effects

Multiplier effects are considered to be further economic activity (jobs, expenditure or income) that are associated with additional local income and local supplier purchases, arising from the TIF intervention, or alternative options i.e. a knock-on effect within the economy. The two key types of multiplier are:

- a **supply linkage multiplier** due to purchases made as a result of the TIF intervention and further purchases associated with linked firms along the supply chain; and
- an **income multiplier** associated with local expenditure as a result of those who derive incomes from the direct and supply linkage impacts of the intervention.

Multiplier effects for different Scottish industries are produced by the Scottish Government.

Type II multipliers provided by Scottish Government give a composite or combined measure of the different multiplier types, combining supply linkage and income effects. Type II multipliers are provided for the estimation of the multiplier effects in three different forms: output (£), income or employment. Examples of the use of these multipliers can be found on the Scottish Government web site:

http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Input-Output/Mulitipliers).

Adjustments will need to be made to national level multipliers for assessing multiplier effects at the local level. Further details are contained in Appendix 1 in relation sources of information for multipliers.

Assessing Time and Quality Additionality

The success of an intervention can be determined not just by the amount or scale of the benefits delivered, but by the timing and quality of those benefits. As such, it is important to assess these effects.

Time Additionality

For many projects, it may be possible to identify and record the amount of time an intervention benefit has been advanced or delayed in comparison with the reference or counter-factual case. For larger scale, long-run projects like TIF, the technique of cost-benefit analysis may be adopted to assess the overall influence of timing on intervention benefits. This technique favours projects / infrastructure that produce results earlier, and / or incur costs later in the life of the intervention.

Quality Additionality

It may be important to measure the benefits of an intervention in terms of the quality of intervention outputs or outcomes for TIF. In this instance, the first step is deciding upon a suitable scale of measurement to assess the quality of an intervention benefit. For example, if an intervention benefit is expected to be an increase in good quality employment, then the quality of employment might be measured by the salary levels of employees, or the job grade.

Combining Different Types of Additionality

Any individual intervention may display a particular combination of additionality in terms of scale, time and quality. However, these will be measured on different scales and are usually not easily combined into an overall measure of additionality. Instead, the different types of additionality may be written up in the economic impact assessment as part of an overall account of a particular project or programme.

In some appraisal cases it may be appropriate to weight the outputs of different intervention options based on their relative output quality (e.g. option A producing higher quality jobs than option B). Such weighting should be explicit. Any weighted outputs under the various delivery options could then be used to calculate the cost per unit of adjusted output/outcome and be taken into account in any value for money assessment.

Gathering Information for Calculating Additionality

In terms of building an economic case for any TIF proposals, the following outlines for selecting or gathering data to calculate additionality are available:

- **Best**: bespoke investigation using various data capture methods, such as meetings, surveys or the results of bespoke economic or other modelling methods.
- **Good**: values chosen through a review of previous evaluations recognising differences in:
    - the policy and location (e.g. geographic, demographic or economic differences)
    - the assumptions made in an original assessment
    - significant changes in situation (due to time of investigation)
- **Adequate**: default values chosen from available guides, where the choice has been carefully considered and the reasoning explained.
- **Not adequate**: default values without consideration of any of the above and / or values used without reference to origin/fitness for purpose.

For the purpose of any TIF proposal, the “Best” option should be followed where possible or alternatively, reasons stated within the Business Case for the “Best” option not being possible or realistic.

Estimating Gross Value Added

As part of any TIF considerations, part of the process should include an overall assessment of the likely TIF contribution to the economy. This should include Gross Value Added (“GVA”), or the ultimate effect on the economy.

The TIF intervention should be measured as an increased GVA as a result of outcomes. Gross and net additional GVA also should be identified – i.e. total GVA and GVA which would not have been achieved without the TIF intervention (or net additional GVA) taking into account deadweight, leakage and displacement.

The Scottish Enterprise Additionality & Economic Impact Assessment Guidance Note (2008) provides guidance on different methodologies for the calculation of GVA dependent upon the level of information available.

The Economic Impact Assessment and the Financial Aspects of Any Proposal

The out turn of the TIF economic impact assessment should be built into the financial modelling supporting the TIF proposals, particularly in relation to additionality and deadweight.

The starting point in terms of the modelling should therefore be that the additionality levels are factored into the projected outturn revenues and income streams. For instance, if x% of new business space within the TIF Red Line is considered additional in terms of its related market, this x% of the future associated revenue streams, in the form of NDRs, should be factored into the modelling.

For any TIF proposals, where it is believed that such a relationship does not hold, or an Authority wishes to submit an alternative approach, the business plan should state its assumptions in terms of revenue capture and the basis of such an assumption, particularly in regards to additionality and displacement.

Ultimately, as highlighted earlier, the process of assessing additionality is important to TIF, as ultimately the TIF must demonstrate that it has the capacity to both deliver sustainable, economic growth to ensure its long term viability, and capture such additionality in the form of NDRs, to repay any upfront funding, whilst ensuring that out turn is not merely displaced from elsewhere.

6. Enabling Legislation & The Capture Mechanism.

For the TIF pilot projects, the capture of NDR for a TIF scheme will utilise the powers in the Local Government Finance Act 1992 ("the Act"). Schedule 12 of the 1992 Act relates to "Payments to Local Authorities by Scottish Ministers" with Paragraph 10 relating specifically to "Non-Domestic Rating contributions". The relevant section is reproduced in Appendix 3.

The Act allows Scottish Ministers to make a Regulation in the form of a Scottish Statutory Instrument (SSI). The related SSI is 2010 (No. 391), which was laid before the Scottish Parliament on 10th November 2010. The SSI contains the Non-Domestic Ratings Contributions (Scotland) Amendment Regulations 2010, (The "Regulations") and these are attached at Appendix 4. This SSI provides for the retention of an element of NDR collections by the Local Authority prior to it remitting the remaining NDR collections to Scottish Government. The Regulations came into force on 31 December 2010 and did not apply in respect of any financial year beginning prior to 1 April 2011. This allows TIF projects to operate from the start of the 2011/12 financial year.

The Regulations cover up to six pilot projects, which will be reviewed in order to assess whether a more general scheme should be developed in the longer term. The Regulations do not need to be renewed annually for the first phase which includes the pilot projects. Thereafter primary legislation will be required for retention of TIF incomes in a more general programme should the pilots be evaluated as successful, although even if evaluated as unsuccessful, the retention of TIF incomes would continue to be permitted under the pilot projects.

The Regulations provide for a general concession to retain NDR income for TIF schemes rather than naming a particular authority and individual scheme. The Regulations note that individual projects must be approved by the Scottish Ministers under the TIF Administration Pilot Scheme approved by them on 5 November 2010.

The Regulations for the pilots, or the related pilot scheme approvals, cover the following elements:

a) The properties within the Red Line area (Section 4.1)

b) The calculation of the baseline prior to, and during, the implementation of the TIF (Section 4.2)

c) The sum agreed to represent an acceptable level of displacement (Section 4.3)

d) Any other sharing mechanism agreed (Section 4.4)

e) The agreed period of time for the TIF scheme (Section 4.5)

6.1. Red Line

The Red Line area is the prescribed TIF area – i.e. the area in which incremental NDRs can be captured over the life of a project to finance the TIF infrastructure investment. The Red Line area will be established in accordance with the Business Case developed by the Local Authority, or group where the TIF area covers more than one Local Authority area. For the technical purpose of the capture mechanism, the Red Line should:

a) Be constructed on a sensible basis to allow differentiation between properties inside, and outside the line and provide a clear determination of whether any new development is within or out with the area;

b) Be defined by a clear and detailed plan showing the Red Line and including such details as where the Red Line runs up a road, which sides of the road are included within the area; and

c) Include any building bisected by the line, where the majority of the building's footprint falls within the line.

d) Contain only one TIF project. I.e. each project will, in practice, have a unique area.

6.2. The Baseline

The initial Baseline amount, also known as the Collectable Amount is defined in the Regulations (new paragraph 8B (3) (a) of Schedule 1 to the 1996 Regulations) and will be determined by the total NDR income payable (i.e. due) in the TIF area prior to the commencement of the TIF project from all the properties in the area. Going forward, any under collection of NDR will be for the account of the Local Authority. The Baseline (or Collectable Amount) will be calculated based upon the level of rate take as at 30th September in the year prior to the first TIF investment. The first TIF investment is defined as the first capital investment by the Local Authority in respect of the TIF Project. This first TIF investment will also trigger the term of the project, such that the TIF provisions will last 25 years from the date of this first TIF investment.

The initial Baseline established at the outset will include all the properties in the defined area at that point. The Baseline, and new sums created by TIF, will then be adjusted annually to reflect growth in NDR revenues that have resulted from material changes unconnected with the TIF Project such as changes to the non-domestic poundage rates, relief schemes and revaluations and the effect of any appeals, bad debt adjustments, or refunds of overpayments. The Baseline amount will also be subject to a quinquennial property revaluation.

6.3. The Collected Amount

The Collected Amount is the total amount of NDR collected by the Local Authority in the Red-Line area (which includes both the existing and new NDR take) in any given year under deduction of an amount for displacement, as detailed in the next section.

6.4. Displacement

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 Red Line, 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

Calculation of displacement is therefore an important aspect of developing a TIF Business Case as it represents a proxy for the loss in overall economic growth caused by displacement of economic activity (i.e. employment, income, revenues and floor space generation etc) from outside the Red Line area to inside it following implementation of the TIF scheme, net of any deadweight. The TIF capture mechanism will specifically exclude an amount agreed 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. This displacement amount will be known as the Agreed Percentage;

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

c) The Local Authority will be required to use reasonable endeavours to monitor the actual level of displacement over the life of the TIF project, in so far as is practicable and shall report these results annually to the TIF Executive. 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. The TIF Executive will review the results of the displacement monitoring, as carried out by the Local Authority, and can recommend to the Scottish Government a variation of the Agreed Percentage on the basis of this data.

d) Should the Local Authority amend district plans, zoning, outline planning consents or similar, or otherwise facilitate development of a nature that increases the level of displacement from occupiers of properties developed within the Red-Line area from that anticipated in the Business Case, following consultation with the Local Authority, the Scottish Government may use this evidence to reassess the agreed percentage.

e) For information purposes, indicative displacement factors have been included in Appendix 5 in relation to different sectors. These are based upon the Scottish Enterprise 'Additionality and Economic Impact Assessment Guidance Note'. Consideration will need to be given to the applicability of these indicative levels for any specific project. Any proposed movement from these levels will need to be captured within the business case.

6.5. TIF Revenues

6.5.1. TIF Revenues Pre Debt-Repayment

The TIF Revenues in any relevant year during the TIF project period are equal to the amount (if any) by which the Collected Amount exceeds the Collectable (or Baseline Amount), adjusted for displacement.

Below is a simple illustrative example of how TIF Revenues are calculated:

Collectable Amount	£100m
Total Amount paid to Local Authority	£120m
Cash Increment	£20m
Agreed % Displacement	20%
Displacement on Cash Increment	£4m
Collected Amount	£116m
TIF Revenue	£16m

The final amount to be retained (The Collected (Initial or Adjusted) amount less the deduction of the Collectable Baseline (Initial or Adjusted) amount within the agreed Red-Line area) will be subject to confirmation from the Scottish Government following submission of an audited return (The TIF Return contained in Appendix 2).

6.5.2. TIF Revenues Post Debt-Repayment

In the year in which the Local Authority fully repays all money borrowed in respect of the TIF Project, the Local Authority, from that year until the end of the TIF Project period (25 years from the first TIF Investment which is deemed to be the first capital investment by the Local Authority in respect of the TIF project), is entitled to retain 50% of the TIF Revenues to be used for further infrastructure investment for the purpose of long-term economic growth and/ or regeneration, provided the TIF Assets originally envisaged, or as otherwise agreed with Scottish Government, are delivered.

The TIF Agreement will detail a date by which the TIF assets must be practically complete. If the TIF assets are not complete on or before this pre-agreed date the Local Authority will not be entitled, following repayment in full of the TIF debt, to retain any of the TIF revenues.

6.6. Period

The TIF mechanism would be put in place for a specified period: 25 years. This 25 year period will commence from the date of the first TIF investment.

In terms of the repayment of the TIF debt itself and the 25 year timeframe, it is likely that in order to manage risk, a Local Authority would structure their TIF proposal such that the prudential borrowing debt should be repaid prior to the expiry of the TIF agreement. The repayment of debt should be monitored, and the Regulations allow, when the debt is repaid (as outlined above), for the percentage of incremental NDR captured by the Local Authority to be halved, with the intention being that the Local Authority could use the retained monies for ongoing investment in infrastructure within the Local Authority area. Such sums may be utilised at the discretion of the Authority, however, the following conditions will apply:

- Practical completion of the TIF assets to be achieved on or before the date specified in the TIF Agreement, or as otherwise agreed with Scottish Government.
- the sums must fund the delivery of further infrastructure;
- the infrastructure selected should deliver sustainable and inclusive economic growth; and
- any infrastructure investment should be considered from a local, regional and national perspective, with preference given to that infrastructure which can deliver at these levels.

Thus, by way of illustration, if it was agreed at the outset that the displacement was most likely to be 30% of the NDR increment above the defined baseline, the capture mechanism would cover 70% of the NDR increment up to the year in which the TIF debt was repaid, and then reduce to 35% for the remainder of the 25-year TIF period. It should be noted that these displacement levels are for illustrative purposes only and the actual amounts will be determined at an individual TIF project level.

7. Monitoring and Evaluation of TIF Pilots

There is a need to properly monitor and evaluate the implementation and operation of the capture mechanism for pilot TIF projects. Effective monitoring is required to be undertaken by the TIF Executive to allow for transparency for the Scottish Government of Collected and Collectable amounts of monies gathered within the TIF Red Line area by Scottish Government. Further monitoring and evaluation of business development, displacement and economic impact assumptions by the TIF project is necessary as part of any Local Authority's justification of each additional stage of investment in the enabling infrastructure stages.

All reporting must provide for transparency of the TIF project. Local Authority requirements are expected to include:

- Records showing the debt costs of the TIF (annual and cumulative value) on a six-monthly basis;
- The annual TIF Return (The return, substantially in the form of the Local Authority's standard NDR return which will be completed by the Local Authority and submitted to the Scottish Government in order to claim the TIF revenues and which is contained in Appendix 2);
- Details of the ten largest NDR payers within the Red-Line area annually;
- Details of the output of the Local Authority's displacement monitoring;
- An annual financial report containing information on actual TIF revenues against forecast, actual repayment of TIF debt against forecast, and actual expenditure on the TIF project.
- The Local Authority should provide the TIF Executive with regular updates and briefings on key elements of the TIF project, including procurement and delivery details and progress.

TIF Executive Requirements are likely to include:

- Review and monitor the progress of the TIF project and provision of advice and guidance where necessary;
- Review and consider the outcome of the above Local Authority reporting regime;
- Review the output of the Local Authority's displacement monitoring; and
- Consider the scope of any changes or amendments to the TIF project and/ or the Business Case, and make any recommendation to the Scottish Government.

TIF Delivery Board requirements are likely to include:

- Development progress reports
- Planning and procurement progress reports
- Others TBA

Appendix 1: Further Guidance / Reading

General Guidance and Best Practice

HM Treasury The Green Book, Appraisal and Evaluation in Central Government (www.hm-treasury.gov.uk).

Scottish Enterprise Appraisal & Evaluation Guidance (http://www.scottish-enterprise.com/sedotcom_home/about-us/research-publications/evaluations-impact.htm)

English Partnerships Additionality Guide, A Standard Approach to Assessing the Additional Impacts of Intervention (http://www.englishpartnerships.co.uk/images/C799363E2FFF45B789F70168169EBEE8.pdf).

Office of the Deputy Prime Minister Assessing the Impacts of Spatial Interventions: Regeneration, Renewal and Regional Development - 'The 3Rs guidance' (http://www.communities.gov.uk/publications/corporate/assessingimpacts).

Sources of Information for Multipliers

Scottish input-output tables: output, employment and income multipliers provide estimates of supply linkages between sectors in Scotland and can be used to identify the supply linkage and income multiplier at the Scottish level.

(http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Input-Output).

Surveys of businesses and employees: businesses can be asked about the local content of the purchases they make and this information can be used to calculate the local supply linkage multiplier effects. In addition, estimates can be calculated of the income multiplier using data on local consumption patterns in the local economy. The New Economics Foundation has developed a model for assessing how a particular business or initiative impacts on the local economy (http://www.neweconomics.org/gen/).

Appendix 2: TIF NDR Return (FOR INFORMATION ONLY)

Draft Pilot Project Letter

Tax Incremental Funding Return

Mid-Year Return 20xx-yy

Please e-mail to : lgfstats@scotland.gsi.gov.uk

Please enter details after checking that you have selected the correct Council name

Please use exact figures, to the nearest pound.

FORMS SHOULD BE E-MAILED TO THE SCOTTISH GOVERNMENT BY dd/mm/yy

TIF Payable to Local Authority

Local Authority: Select your council

ADDITIONAL NOTES FOR COMPLETION OF THIS RETURN ARE ATTACHED TO THE COMMISSIONING E-MAIL

		Credits £'s	Deductions £'s
	20xx-yy PROVISIONAL CONTRIBUTIONS		
1	Amount payable to local authority for TIF red line area in respect of 20xx-yy		
Less	**Mandatory Reliefs**		
2	Unoccupied/Partly Unoccupied Property		
3	New Start		
4	Fresh Start		
5	Churches, etc		
6	Charities (excluding Sports Clubs)		

7	Sports Clubs		
8	Rate Rebates (Disabled Persons)		
9	Rural Rate Relief		
10	Small Business Bonus Scheme		
11	Renewable Energy Relief Scheme		
12	Enterprise Areas		
13	**Gross Amount** (Sub total of line 1 minus lines 2 to 13)	**0**	
Less	**Discretionary Reliefs**		
14	Hardship		
15	Charities (excluding Sports Clubs) and other organisations		
16	Sports Clubs		
17	Backdated relief of Sports Clubs and Charities		
18	Rural Rate Relief		
19	Stud Farms		
Less	**Other Deductions**		
20	Rates written off and provision for write-offs		
21	Refunds of Overpayments: interest		
22	**Gross amount** of line 13 minus lines 14 to 21	**0**	
	Prior Year Adjustments for 1993-94 to 2009-10		
Less	**Deductions**		
23	Bad or doubtful debts		
24	Appeals etc		
25	Late deductions to the roll now not payable		
26	**Deductions** (line 23+24+25)	0	

Plus **Additions**

27	Bad or doubtful debts now collected		
28	Late additions to the roll now paid or payable etc		
29	**Total Additions** (line 27+28)	**0**	
	Other Adjustments		
30	Other additions/deductions not included elsewhere		
31	Backdated Small Business Rates Relief Scheme		
32	Backdated Small Business Bonus Scheme		
33	**CONTRIBUTABLE AMOUNT** (line 22 - line 26 + 29 + 30LHS -30RHS - 31 - 32)	**0**	
34	**AGREED TIF AREA BASELINE**		
35	**COLLECTABLE AMOUNT (BASELINE ADJUSTED)** (line 33 - 34)	0	
36	Any other applicable amounts in the Red-line area		
37	**AGGREGATE COLLECTABLE AMOUNT** (line 35 + 36*) *payable to other Local Authorities (baseline adjusted, pre-displacement)	0	
38	**DISPLACEMENT FACTOR**		
39	**DISPLACEMENT ADJUSTMENT** (line 37 x line 38)	0	
40	**COLLECTED AMOUNT** (line 37 - line 39 + line 34)	0	
41	**COUNCIL TIF RETENTION** (line 40 - line 34)	0	

I certify that the entries I have provided were calculated in accordance with the notes for completion and incorporating the assumptions as required by Schedule 2 of the Non-Domestic Rating Contributions (Scotland) Regulations 1996, as amended.

Director of Finance ______________________

Date ______________________

Completed forms should be e-mailed **by dd/mm/yy** to: lgfstats@scotland.gsi.gov.uk

Appendix 3: Local Government Finance Act 1992 – Extract

SCHEDULE 12

Payments to Local Authorities by the Scottish Ministers - Scotland

Part III
Contribution
Non-domestic rating contributions

relevant elements highlighted

Paragraph 10:

10.—(1) The Scottish Ministers may make regulations containing rules for the calculation of an amount for a financial year in relation to each local authority (to be called its non-domestic rating contribution for the year).

(2) Subject to sub-paragraph (3) below, the rules shall be so framed that the amount calculated under them in relation to an authority is broadly the same as the total which would be payable to that authority if there were added—

(a) any sum paid to them by way of a contribution in aid made in respect of lands and heritages which, but for section 7 (exemption for visiting forces etc.) of the Local Government and Rating Act 1997, would be liable to non-domestic rates; and

(b) the sum which, if the authority acted diligently, would be payable to them in respect of non-domestic rates for that year.

(3) The Scottish Ministers may incorporate in the rules provision for deductions (of such extent (if any) as they think fit) as regards—

(a) the operation of—

(i) section 24A (lands and heritages partly unoccupied for a short time) of the Local Government (Scotland) Act 1966;

(ii) section 244 (remission of rates on account of poverty) of the 1947 Act;

(iii) section 4(5) (reduction and remission of rates payable by charitable and other organisations) of the Local Government (Financial Provisions) (Scotland) Act 1962

and

(iv) paragraph 4 of Schedule 2 (discretionary relief for rural settlements) to the Local Government and Rating Act 1997

(b) the costs of collection and recovery; and

(c) such other matters (if any) as they think fit.

(4) Regulations under this paragraph in their application to a particular financial year (including regulations amending or revoking others) shall not be effective unless they come into force before 1st January in the preceding financial year.

Appendix 4: Scottish Statutory Instrument – 2010 No. 391 – Extract

(Full Regulations, including an Explanatory Note and an Executive Note can be found via the following link: http://www.england-legislation.hmso.gov.uk/legislation/scotland/s-201003

The Non-Domestic Rating Contributions (Scotland) Amendment Regulations 2010

Made - - - - 8th November 2010
Laid before the Scottish Parliament 10th November 2010
Coming into force - - 31st December 2010

The Scottish Ministers make the following Regulations in exercise of the powers conferred on them by sections 113 and 116(1) of, and paragraphs 10 and 11(5) (a) of Schedule 12 to, the Local Government Finance Act 1992(**a**) and all other powers enabling them to do so.

Citation, commencement and application

1.— (1) These Regulations may be cited as the Non-Domestic Rating Contributions (Scotland)Amendment Regulations 2010 and come into force on 31st December 2010.

(2) These Regulations do not apply in respect of any financial year beginning prior to 1st April 2011.

Amendment of the 1996 Regulations

2.— (1) The Non-Domestic Rating Contributions (Scotland) Regulations 1996(**b**) are amended in accordance with this regulation.

(2) In Schedule 1, after paragraph 8A (amounts paid or payable in respect of non-domestic rates for preceding years that have been repaid or become repayable)(**c**), insert—
"**8B.**—(1) Where in a relevant year an authority operate a TIF project—

(a) the amount in that year by which the collected amount exceeds the collectable amount; or
(b) where sub-paragraph (2) applies, 50% of that amount.

(2) This sub-paragraph applies where in that year an authority operate a TIF project and have repaid all money borrowed in respect of that project.

(3) In this paragraph—"the collectable amount" is—

(a) in the initial relevant year of the TIF project, the amount of non-domestic rates calculated to be payable for the area of the TIF project as at 30th September in the previous year ("the initial date")—
(i) applying the rules contained in Schedule 1 to these Regulations (apart from this paragraph); and

(ii) on the basis of the information before the authority at the time they make the calculation and subject to the assumptions prescribed in Schedule 2 to these Regulations;

(b) in each subsequent relevant year of the TIF project, that amount adjusted as at 30th September in that year to take account of any material change that has occurred from the initial date;

"the collected amount" is the total amount of non-domestic rates paid to the authority in the relevant year for the area of the TIF project, but under deduction of any amount caused by displacement;

"displacement" means the extent to which the non-domestic rates paid to the authority for the area of the TIF project—

(a) result from the relocation of those who are required to make the payments; and

(b) would have been made to the authority or another authority had the TIF project not been in operation;

"material change" means any change that materially alters the non-domestic rates payable for the area of the TIF project—

(a) excluding change arising as a result of the operation of the TIF project; and

(b) including change in the rate prescribed for the purposes of section 7B of the Local Government (Scotland) Act 1975(**a**) between the year preceding the initial relevant year of the TIF project and subsequent relevant years; and a "TIF project" is a project approved by the Scottish Ministers in terms of the Tax Incremental Financing Administration Pilot Scheme set out by the Scottish Ministers on 5th November 2010, that is, a project which enables an authority to meet the costs of borrowing for construction and development works from the non-domestic rate income expected to result from the project.".

JOHN SWINNEY
A member of the Scottish Executive

St Andrew's House,
Edinburgh
8th November 2010

Appendix 5: Indicative Displacement Rates

Sector	Displacement at Scotland level	Rationale	Determining Factors
Retail	Total too high for most types of retail, reducing as the amount of foreign customers and/or domestic demand repatriated from abroad increases Normal range: 100% to 75%*	When assessing displacement from retail activity, the counterfactual should be considered (i.e. what would have happened to the money spent in the new retail development were it not built). Generally speaking, consumers have fixed disposable incomes which they will allocate according to their needs and preferences. New retail choices may alter those preferences, but it will not likely alter the amount of money that they have available to spend in the economy. Depending on the type of retail, consumers may consider shopping as a leisure activity, hence there may be displacement of activity between retail and leisure activities.	• A lower displacement rate would apply if new demand is being brought in from outside Scotland or if products that were previously only available outside of Scotland were being made available domestically (although consideration should be given here to substitutes currently available). • A higher displacement rate would apply if all customers are domestic, and retail demand was not expected to increase. A high displacement rate would also be expected if the products are already available in Scotland or have many substitutes available (for example, supermarkets have very high displacement rates compared to a specialist craft shop or art gallery).
Tourism/ Leisure	Total too high for domestic visitors, decreasing as the number of additional foreign visitors attracted increases	Displacement in tourism and leisure for domestic focussed attractions is similar to retail displacement due to the existence of relatively fixed disposable incomes to allocate to leisure activities. The displacement rate for foreign visitors will depend on whether the tourists are additional, or whether they would have come to Scotland and visited an	• A lower displacement rate would apply if visitors are coming from abroad and would not have travelled to Scotland without the new attraction, or have extended their stay. Another mitigating factor would be if domestic visitors would otherwise have visited a tourist/leisure attraction outside of Scotland if the new attraction did not exist.

	Normal range: 100% to 75%	alternative attraction regardless of whether or not the TIF went ahead.	• A higher displacement rate would apply if the majority of visitors originated from within Scotland and would otherwise have visited another attraction, or stayed at home.
Office Space	Medium to high Normal range: 50% to 75%	Where businesses locate is dependent on proximity to customers and workforce, and the availability of suitable office space. If new space is able to meet demand for the right type of office space in the right location, then the workforce will be more productive compared to the next best option. However, this is likely to lower the market share of competitors, lowering economic activity elsewhere in the economy meaning some displacement is inevitable, unless the business is introducing a service which is entirely new to Scotland.	• A lower displacement rate would apply if there was pent up demand for suitable office space in a specific location and this was limiting the growth of businesses in the area and/or leading to businesses leaving the country. • A higher displacement rate would apply if: businesses did not need to locate in the area and therefore could occupy suitable office space elsewhere in Scotland; if there is already excess demand in the target market or; if the sector is highly competitive.
Industrial	Low to medium Normal range: 25% to 50%	Similar to business space, but industrial firms tend to be more constrained in where they can locate, due to the need to be in close proximity to suppliers, customers, workforce and other factors such as suitable infrastructure (e.g. ports). A good location may therefore be the determining factor in whether a business is profitable or not. Depending on the type of industry, there may only be a small number of locations worldwide that are suitable. As with business space, if competition exists, displacement will occur if existing businesses lose market share.	• A lower displacement rate would apply if there are very few suitable alternative locations elsewhere in Scotland either due to the location of downstream or upstream businesses, or because of necessary infrastructure. • A higher displacement rate would apply if there are suitable alternative locations in Scotland and/or if there are many competitors.

* Percentages based on Scottish Enterprise “Additionality and Economic Impact Assessment Guidance Note”