

Financing Urban Regeneration: Accelerated Development Zones for London?

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The Budget 2010 contained proposals for a new financing mechanism to be piloted across England – Accelerated Development Zones ("ADZs"). Based on the principles that underpin Tax Increment Financing ("TIF") in the US, research undertaken by a range of local authorities across the UK indicates that ADZs have the potential to unlock significant developments across the country, by providing additional upfront finance for infrastructure investment. Ben Harrison outlines the key features of the ADZ concept and the recently announced Pilot Programme, before asking what role ADZs could play in the financing of urban regeneration in London in the years ahead.

Introduction

ADZs are a new financial mechanism currently being considered by Government to help local authorities across England deliver key enabling infrastructure upfront in order to drive development forward.

The principles underpinning ADZs focus on the deployment of the projected future tax gains of proposed urban regeneration schemes to finance the infrastructure required to unlock the schemes themselves. For example, when a public project such as the construction of major new transport links, a school, or a hazardous waste cleanup is carried out, there is an increase in the value of surrounding real estate, and often new and additional investment in the area. This increased site value and investment creates more taxable property, which in turn increases potential tax revenues. These increased tax revenues are the "tax increment." ADZs would allow local authorities to capture and retain specifically any incremental commercial tax revenues (business rates) generated as a result of the development, in order to finance debt issued to pay for the initial infrastructure investment. In this way, local authorities are able to use the proceeds of future growth, to enable the development in the first place. These principles are intended to create a virtuous circle of funding, and facilitate the delivery of key infrastructure investments.

The principles outlined above were initially put into a UK context by the Core Cities Group and PwC in 2008, as part of a wide ranging study examining how major urban regeneration schemes in Leeds, Birmingham, Sheffield and Nottingham could be funded in the future. Even at this stage of policy development, however, it was clear that ADZs would not be a panacea to local authority investment needs. Rather, ADZs could represent a critical component part of a wider funding mix supporting major regeneration schemes.

Since then, a number of local authorities across the UK, including Cardiff, Edinburgh and a range of London Boroughs, have undertaken initial studies as to the potential benefits of this approach. As a result of these studies, support began to grow behind the implementation of ADZs to support urban economic development in the UK. HM Treasury and CLG established a working group to develop the policy context

further, while the All Party Urban Development Group considered the potential for ADZs to have a significant impact on urban regeneration funding across the country.

As this work has continued, a number of further practical implementation principles have been established regarding the future use of ADZs, namely:

- Appropriate schemes must be able to demonstrate a capacity to deliver significant additional business rate revenues;
- There must be a clear infrastructure requirement constraining development from proceeding; and,
- This infrastructure constraint must serve a wider public benefit than simply enabling a single, discreet development to go ahead (e.g. highways works, as opposed to on-site road networks)

Budget 2010 and the ADZ Pilot Programme

Based on the crystallizing of these principles, the findings of the HM Treasury CLG working group, and the clear interest in the concept from local authorities across the country, the Government announced in the Budget 2010 that it would launch a Pilot Programme for ADZs. As yet, it is not clear what the specific criteria or process underpinning this Pilot Programme will be. There has been no detail provided in terms of the number of pilots that are expected, what qualities they will need to demonstrate to be considered going forward, or how long the pilot process will run for.

The announcement in the Budget did, however, give us some clues as to the likely make up of some elements of the Pilot Programme. First, the Budget stated that the Government would introduce pilot schemes in locations across England in 2011-12 – meaning schemes to be considered for ADZ Pilot status will need to be “shovel ready” for next year. Furthermore, this implies that any competition for Pilot status will be run in 2010, meaning there is an onus on those local authorities wishing to make submissions to begin marshalling the necessary data to underpin their case for selection soon.

Second, rather than expecting selected local and combined authorities to prudentially borrow against retained business rate income, authorities’ will instead receive capital grant funding (out of a total £120 million pot, top sliced from existing Regional Development Agency budgets and allocated to the Programme) to help support projects that deliver key infrastructure and commercial development to unlock growth. In this sense, the Pilot Programme is likely to represent a “dry run” for local authorities and Government, in order to test the conceptual and practical implementation principles underpinning ADZs.

Third, the Government will then assess the impact of the investment on business rates growth within the defined ADZ area, in the specific context of the size of the grant allocated, to further understand the case for fully introducing ADZs across England.

ADZs in the London Context

So, what does all of this mean for London? Since the announcement of the Pilot Programme there has been significant interest in the concept from across the capital. A number of London Boroughs have expressed a desire to find out more about ADZs and what the Pilot Programme could mean for them.

Furthermore, PwC has recently been engaged by Transport for London, to examine what contribution an ADZ mechanism could make to the funding to an extension to the Northern Line to Battersea-Nine Elms.

However, as discussed at a recent Future of London Major Projects Delivery Group, development in London tends to be focussed on the delivery of residential properties, and therefore the scope for schemes to generate significant additional business rate revenue may, on the whole, be limited, if there is not also a significant commercial or retail element to the schemes in question.

Nevertheless, as work undertaken by the London Borough of Barnet has previously demonstrated, if local authorities were to be able to retain other additional revenue streams generated as a result of development going ahead, such as stamp duty, for instance, a compelling financing proposition can be formulated which adheres to the conceptual ADZ principles outlined at the beginning of this article.

The appetite for the new Coalition Government to expand upon the ADZ proposition by including other additional revenue streams is, at the time of writing, not clear. Indeed, the degree of commitment from the new Coalition Government's to the ADZ Pilot Programme itself is not yet clear, and much will be revealed as Chancellor Osborne unveils his plans for immediate cut backs, and his longer term spending plans later in the year. However, upon reviewing the current priorities of the new Government, there are a number of reasons for cautious optimism.

First, there is currently no known political objection to the ADZ concept from either of the coalition partners. The Conservatives talked enthusiastically of empowering local communities in their manifesto, and for their part, the Liberal Democrats have long been in favour of the re-localisation of the entire business rate. Second, reflecting these positions, Deputy Prime Minister Nick Clegg has recently the Government to overseeing a "Big Bang" of political reform in this country, calling for an end to the piecemeal, "incremental" reforms of previous years.

Conclusion

Time will tell if this soaring rhetoric is supported by substantive policy proposals and real devolution to local authorities. If it is, then we may find that the ADZ proposition becomes more, not less ambitious, under the new Government. Together with the range of other planned political reforms, ADZs could be part of what Clegg has dubbed, a "power revolution" to give more power and autonomy back to local authorities, potentially helping to boost the ability of all London Boroughs to finance urban regeneration schemes in their area.

Therefore, while there is clearly an incentive for all London Boroughs to begin thinking immediately about how ADZs could help them deliver their urban regeneration priorities in the years ahead, for now, it remains a case of 'watch this space'.

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