

The Planning Interchange

Planning Interchange - Development Economics workshop 28th Oct 2011

Question and Answer session

Q. Seeking clarification on the use of Tax Incremental Financing (TIF) at Ravenscraig – the number of residential units in the masterplan has decreased – what impact does this have on the use of the TIF?

A. The TIF is based on commercial income only (from non-domestic rates through corporation tax), therefore a drop in the number of residential units planned has no effect on the TIF. A change in use of units i.e. from retail to office use would affect the projected income and therefore would have an impact on the balance of the TIF.

Q. In using TIFs to fund new development, how is displacement calculated i.e. when a company commits to taking up one of the new units but is actually giving up a unit within the same area?

A. Local Authorities have introduced economic concepts of displacement to account for this type of movement. Equally valid in these types of calculations are Retail Impact Assessments.

Q. Do Local Authorities understand development economics?

A. Some do, some do not. There is also a degree of mistrust from some Authorities in what developers are submitting to them to show what is and is not viable. The example raised in the discussion was a claim by one Authority that the developer had submitted unrealistically high interest rates. It was pointed out that it is not unreasonable for a developer to include contingencies and worst case scenarios in terms of their costs because they do not know what banks will charge. Banks at the moment are risk-averse and charge rates on a case by case basis measuring the risk involved in funding. It was also pointed out that there is nervousness that once the developer has submitted the costs to the Authority that it becomes written in stone with no flexibility to account for increased costs later. Understanding amongst elected members was also discussed with general agreement that there is a requirement for additional training for elected members on development economics.

Q. Do Developers consider 'planning issues' before they pay the price for the land i.e. constraints, landscaping issues etc?

A. Yes developers will consider in detail the Local Plan and take into account noted issues before agreeing a price with the landowners. In a competitive bid situation this is not always easy but that is when 'conditional offers' are used. There was general agreement that the landowner should take a 'hit' on the price for land for planning policies that must be met...but at the same time it was noted that it is too easy for landowners to sit tight in the hope that policies change or the market returns so that they can ensure a better return for their land.