

Edinburgh Waterfront Tax Increment Financing (TIF) Pilot Project – Progress Update

Policy and Strategy Committee

8 November 2011

1 Purpose of report

- 1.1 This report sets out the latest developments in respect of the Tax Increment Financing (TIF) project for the Edinburgh Waterfront area between Leith and Granton, in which land in the ownership of Forth Ports features prominently. Under the terms of its agreement with the Scottish Government, the Council can access prudential borrowing to finance new infrastructure at the Edinburgh Waterfront. This borrowing would subsequently be repaid through an agreement with the Scottish Government that will enable the Council to retain the uplift in incremental non-domestic rates (NDR) revenue from within a defined geographic area (the 'red line' area) for a period of up to 25 years.
- 1.2 Following the agreement between the Council and the Scottish Government which set out key operational requirements, the planned timeline for the infrastructure projects, and details of the governance arrangements, Forth Ports Plc was acquired by Arcus Infrastructure Fund and is now once more a private company, Forth Ports Ltd. In the wake of that acquisition, it has become clear that the new owner's vision for the port is to move away from property development and to focus on port operations as its core business. Ocean Terminal, key to the current TIF projects, has also recently been marketed for sale which has implications for the TIF project. This report provides an update on the latest developments and sets out revised proposals for taking the project forward.

2 Summary

- 2.1 At its meeting on 22 February 2011 the Committee agreed governance arrangements for the TIF project and agreed a budget of £100,000 to take forward the initial infrastructure projects identified in the Business Case. Approval was also granted to invite applications for a Project Manager to oversee the four infrastructure projects identified in the Business Case.

2.2 In light of the recent takeover of Forth Ports, this report sets out alternative project management arrangements, provides an update on potential infrastructure projects and reports on the latest discussions with Scottish Enterprise in relation to the National Renewables Infrastructure Fund (NRIF) announced by the Scottish Government in late 2010. NRIF follows on from the National Renewables Infrastructure Plan (Stage 2) which identified Leith Docks as a potential primary location to support Scotland's renewable energy industry, through the development of manufacturing and maintenance facilities.

3 Main report

3.1 As previously reported, the support of Forth Ports is seen as key to the success of the Waterfront TIF project given that they are the land owner and developer of the port. In light of the acquisition of Forth Ports Plc by Arcus, and their stated aim to move away from property development and focus on port operations, the common view is that the road and esplanade, two of the original infrastructure projects, should proceed as planned whereas the other projects, the finger pier and lock gates, are less certain and emerging opportunities in respect of the renewable energy sector, prototype development and other port related uses may provide a better return on investment. In light of these developments the Director of City Development wrote to the Cabinet Secretary for Finance and Sustainable Growth on 14 June 2011 clarifying the latest position. Alex Neil the Cabinet Secretary for Infrastructure replied noting the possible change to future infrastructure projects.

3.2 Following more recent discussions with Scottish Enterprise it is clear that Leith is one of a number of locations being considered for NRIF funding which has the potential to reposition Leith as a 21st century gateway port, suitable for a number of uses, including support for the offshore wind sector. Such a change would have implications for land use, although the previously consented, mixed use developments at Britannia Quay and Waterfront Plaza to the west of Ocean Terminal would remain, along with Western Harbour. A decision to focus on core port operations and renewable energy uses would potentially affect the eastern side of the port, albeit the mixed-use residential development envisaged for that area was not anticipated to come on stream until 2024 -2032. The infrastructure investment needed to facilitate the creation of a 21st century port facility, with the potential to generate significant additional economic activity is not inconsiderable and may provide an alternative, and more attractive option for TIF investment. This is something Scottish Enterprise and the Council is examining, together with Scottish Futures Trust, with Scottish Enterprise supporting a master plan review exercise, in concert with Forth Ports Ltd, to test the feasibility of port related investment and determine the level of infrastructure required.

3.3 A further aspect of the recent takeover is Forth Ports' proposal to sell Ocean Terminal, together with about 9 acres of development land, the closing date for which was mid October 2011. One implication of the sale is that construction of the esplanade, the second of the proposed TIF projects, will require fresh negotiations with the new owners, who are as yet unknown.

- 3.4 As a result the programme timetable for delivery of the initial TIF infrastructure is somewhat uncertain. However the opportunity remains, subject to completion of legal agreements with Forth Ports, to take the connecting road from Seafield to Constitution Street forward, in parallel with the master planning process. As envisaged in the original Business Plan, this road would provide improved connectivity with the port and the existing undeveloped port land and would also provide environmental benefits in reducing traffic demand on Salamander Street and protecting the historic heart of Leith.
- 3.5 As partners in this pilot project, the support and collaboration of Forth Ports is essential. This remains the case in respect of the road construction and in facilitating discussions with the new owners of Ocean Terminal about the esplanade. However, Forth Ports no longer has an active development team.
- 3.6 In light of the above, it is proposed that project management of TIF funded infrastructure should be delivered in house by the Council. This will follow the Prince 2 approach adopted for major projects, with an Investment Steering Group and Project Board providing oversight of planned developments, on the same model used for the EICC extension. There will be a need to appoint a Project Manager and dedicated design teams for each infrastructure project. Discussions will continue with Scottish Enterprise and the Scottish Government about port related infrastructure investment that may be needed for economic development eg in support of cruise liner traffic and renewable energy manufacturing in Leith. The TIF business case will be reviewed to assess how any proposed changes to infrastructure investment will impact on the forecast growth of Non Domestic Rates Revenue.
- 3.7 Office of Government Commerce (OGC) Prince 2 project appraisal processes and Key Stage Reviews will also be carried out prior to the commencement of each infrastructure project. Similarly, all relevant EU rules on procurement will be fully adhered to.
- 3.8 Once each TIF project has been appraised by the Investment Steering Group, the final investment decision will remain with the Council.

4 Financial Implications

- 4.1 Under the Council's agreement with the Scottish Government, a deadline has been set by which the first drawdown of prudential borrowing must occur (December 2012), with the intention of ensuring a timely start to this pilot project. However, in light of the recent developments the originally envisaged start dates are no longer considered achievable and it is intended to discuss the implications of this delay jointly with the Scottish Futures Trust and the Scottish Government.
- 4.2 At its meeting on 22 February 2011 the Committee approved the setting up of a budget of £100,000 for preparatory costs in relation to the new link road and esplanade, the first of the proposed four infrastructure projects. £10,000 was set aside for 2010/11 and the balance of £90,000 for 2011/12. In light of current developments it is likely that such sums will be required to re-examine the business case for a different portfolio of infrastructure assets to ensure TIF investment can achieve best value. The findings of any such review will be

reported to the Committee. Such costs would be capitalised as TIF expenditure when approval for the relevant infrastructure investment is received, a point of principle accepted both by SFT and Scottish Government. Once individual projects requiring finance have been positively appraised, Council approval will be sought to enter into new prudential borrowing, which to be repaid from the forecast uplift in NDR revenues hypothecated from the TIF 'red line' area.

5 Environmental Impact

- 5.1 The environmental impact of development in Edinburgh's Waterfront will be managed through the conditions set by the Planning Committee and the sustainability statement prepared by Forth Ports Ltd.

6 Programme

- 6.1 Based on the latest developments, the earliest that the first of the infrastructure projects is likely to commence on site is early 2013.

7 Recommendations

- 7.1 Committee is asked to:

- a) note recent developments in relation to the probable need for changes to the portfolio of infrastructure projects currently included within the TIF Business Plan;
- b) note current proposals in respect of the Project Management of the TIF project;
- c) Approve continued development work on the link road and early engagement with the new owners of Ocean Terminal about the esplanade;
- d) note the Council's current collaboration with Scottish Enterprise and Forth Ports Ltd in respect of potential port related infrastructure projects at Leith Docks; and,
- e) note plans to meet with Scottish Government and Scottish Futures Trust to review the delivery programme.

Dave Anderson
Director of City Development

Appendices	Appendix A: Figure 1: Project Team.
Contact/tel/Email	Dave Anderson on 529 3524
Wards affected	Ward 4: Forth Ward 13: Leith Ward
Single Outcome Agreement	National Outcome 1 - We live in a Scotland that is the most attractive place for doing business in Europe; National Outcome 2 - We realise our full economic potential with more and better employment opportunities for our people; National Outcome 10 - We live in well-designed, sustainable places where we are able to access the amenities and services we need.
Background Papers	Item 2: Edinburgh Waterfront Tax Incremental Financing (TIF) Pilot Project @ Policy and Strategy Committee on 22 February 2011.

Appendix A

Project Team

The project team is responsible for the delivery of the products of the project. The team will be lead by the Client Project Co-ordinator who will be supported in delivering the project by a range of internal and external resources.

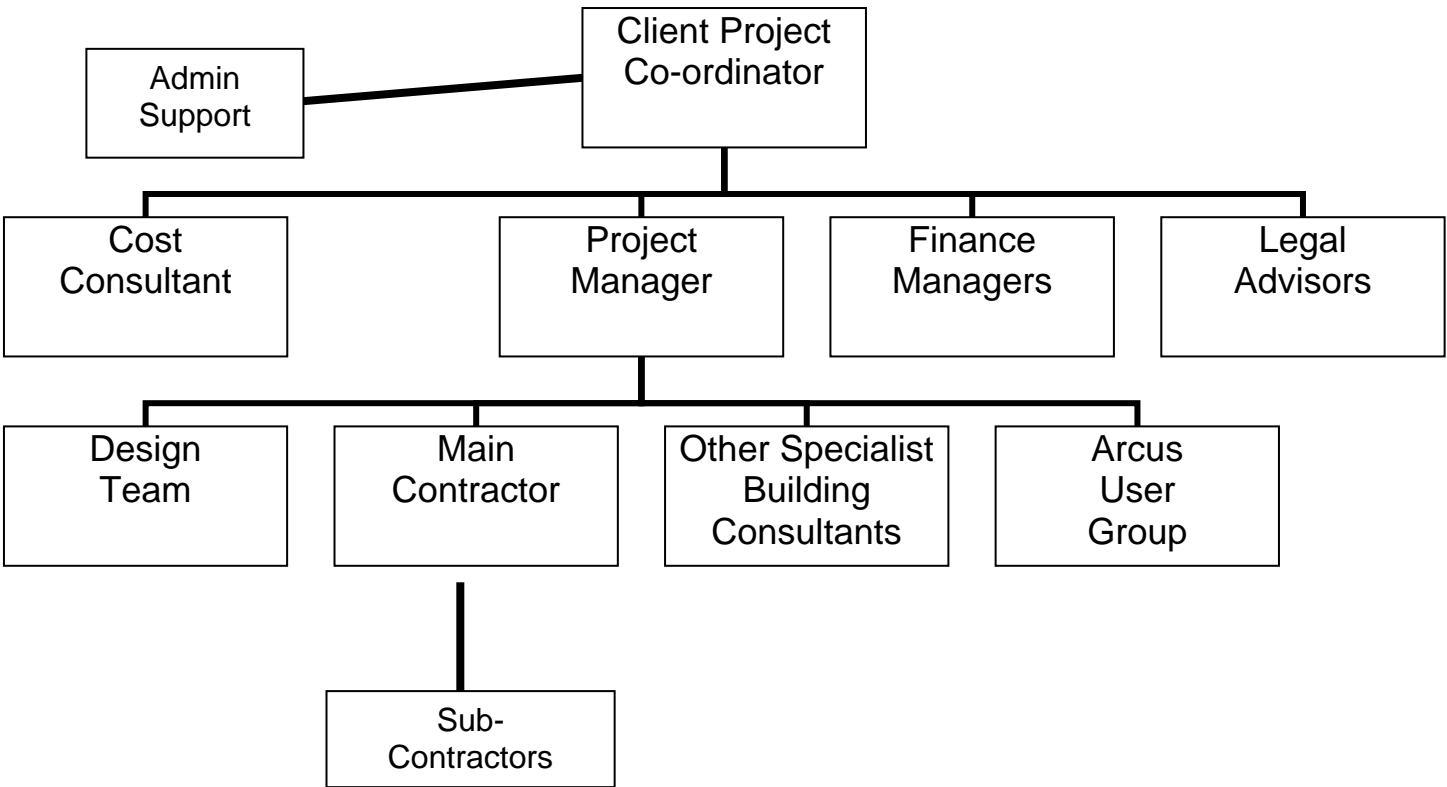


Figure 1: Project Team