

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources Committee
DATE	17 August 2012
DIRECTOR	Gordon McIntosh
TITLE OF REPORT	Aberdeen Tax Incremental Financing (TIF) Business Case
REPORT NUMBER:	EPI/12/176

1 PURPOSE OF REPORT

To inform Committee of the current position with regard to the Tax Incremental Financing (TIF) Business Case, produced with the aim of securing investment in five City Centre regeneration projects.

2 RECOMMENDATION(S)

That Committee:

- (i) Scrutinises and debates the attached TIF Business case and refers it to full Council on 22 August 2012.

3 FINANCIAL IMPLICATIONS

- 3.1 The major financial implication associated with this project from the Council's perspective relates to the borrowing costs it will be required to make and the income stream that would have to be derived by way of Non Domestic Rate income to meet these costs.
- 3.2 The TIF business case demonstrates that based on the assumptions contained within the table below the Council would repay the £92 million investment required by year 20 of the TIF period.

Assumption	Value
Total Capital Expenditure	£182m
Private Sector Contributions	(£70m)
Grants	(£20m)

Prudential Requirement	Borrowing	£92m
Drawdown Start Date		01 April 2014
Drawdown End Date		31 March 2017
PWLB 25 year Interest Rate (August 2011)		4.65%
Council Interest Rate Buffer		0.55%
Total Interest Rate assumed		5.20%
Displacement		22.3%
Void Rate/Bad Debt		7.2%
Date at which TIF Baseline Frozen		September 2013
TIF Rate Capture Period		25 years
End of TIF Term		31 March 2039

- 3.3 The assumptions above are clearly subject to potential future movement, both in a positive and negative way and therefore have an attached risk associated with each of them.
- 3.4 The risks are covered in the TIF business case in Appendix 2, Section 7 and are summarised below for ease of reference. There are also a number of mitigating factors that can be implemented or undertaken to reduce or minimise the Council's exposure to risk and these are also detailed.
1. PWLB Rate is higher than that included within the model;
 2. Public Sector Contribution is higher than anticipated;
 3. NDR poundage rate decreases over time;
 4. The void level is higher than the 7.2% modelled;
 5. The level of NDR cash flow is lower than anticipated;
 6. There is no additional NDR generated;
 7. The level of private sector contributions is reduced;
 8. The level of grant funding is reduced or unsuccessful.
- 3.5 In order to understand the level of risk exposure the TIF business case also incorporates a sensitivity analysis. A sensitivity analysis provides an indication of the impact of one of the assumptions moving on the financial model.

- 3.6 For example, the PWLB rate is varied by plus or minus 1% to determine whether it would have a material impact on the model. In this example the movement does not change the ability of the investment to be repaid within the 25 years, merely the date the loan is repaid moves from year 20 using the base model to an 18 year repayment period if rates are 1% lower and 22 years if rates are 1% higher.
- 3.7 This sensitivity analysis provides a financial commentary on the impact of one of the assumptions moving, which in a project of this scale and complexity is highly likely.
- 3.8 In order to further understand the sensitivity of the base assumptions a further exercise has been undertaken to demonstrate the point at which one of the assumptions would have to move to move the model onto a position whereby the investment cannot be repaid within the 25 year TIF period.
- 3.9 This can be summarised below and demonstrates the sensitivity analysis that has been applied as well as examining the “break even” position by year. That is, moving the base assumption to the point where the investment by the Council will not be repaid within a 25 year period.
- 3.10 What this demonstrates, by way of example, is that if the level of void moves to a point higher than 26.8% then the investment would not be repaid within a 25 year period.
- 3.11 The TIF business case shows that the total cost of borrowing (the principal and the interest) for the £92 million investment is £149.7 million. This will be met over the period by NDR income of £221.8 million.

Sensitivity Analysis

Scenario	Prudential Borrowing (£m)	Repayment Period (years)	Potential Interest Gap (£'000)	Surplus (£m)
Base Case	92	20	0	72
10% Increase in Capital Costs	101.2	22.5	0	47
Base Case: maximum capital expenditure serviceable within a 25 year term	115.2	25	673	0
Reduction in interest rates to 4.2%	92	18.5	0	89
Increase in interest rates to 6.2%	92	22	213	48
Breakeven interest rate of 7.41%	92	25	2,930	0
Reduction in void rates to	92	19.5	0	82

4.2%				
Increase in void rates to 10.2%	92	20.5	0	62
Breakeven void rate of 26.8%	92	25	642	0
Delay in revenues of one year	92	22	1,876	45
Delay in revenues of two years	92	24	7,300	18
Delay in revenues of three years	92	Not repaid	13,000	0
1% Indexation applied to revenues	92	18	0	115

3.12 The above figures results in the Council being able to retain 50% of the NDR income stream from year 20 to 25 totalling £36 million and the same amount is redistributed back to the Scottish Government.

3.13 Finally, it should be noted that once the Council has constructed the relevant infrastructure within the TIF red line area there will be ongoing revenue implications for the upkeep, maintenance and running of the assets.

3.14 However, this would be partially offset through additional revenue funding by way of General Revenue Grant (GRG) as the Council would have higher grant indicators that would attract additional GRG. The submission of the TIF to the SFT must meet their criteria for TIF bids for capital infrastructure and therefore cannot include ongoing revenue implications.

3.15 In summary the TIF business case demonstrates that given the base assumptions, the model allows for the repayment of the up front investment within the 25 year period within the risk parameters set out above.

4 OTHER IMPLICATIONS

4.1 Should Committee decide to submit the TIF scheme to SFT, and should it subsequently be approved by Scottish Government, Legal and Democratic Services will oversee the production of a TIF Scheme Agreement between Aberdeen City Council and SFT. This will likely involve Service scrutinising the terms and conditions proposed by the SFT and reporting back to Committee on the final agreement.

4.2 Other implications of the TIF scheme mainly relate to the economic impact that the scheme will have on the City's economy and this is fully outlined in the TIF Business Case.

4.3 The TIF scheme will contribute to providing a high quality City Centre environment, that compares favourably with other global energy cities, will confirm Aberdeen is serious about competing for mobile investment and maintaining its status as a global energy city.

5 BACKGROUND/MAIN ISSUES

- 5.1 In a time of recession in the United Kingdom, Aberdeen has a buoyant economy (10 years+) and aims to be 'Aberdeen – the Smarter City'. Looking to the future major investment in the public sector assets can anchor and support sustainable growth. New investment is essential if Aberdeen is to deliver the growth related development outlined in its emerging Local Development Plan.
- 5.2 The current situation with regard to the TIF Business case, is that;
- A comprehensive business case has been prepared, as the basis for negotiating a TIF agreement with the Scottish Government. This has been designed to secure investment in five major City Centre regeneration projects.
 - Two draft documents have already been made public - the first draft in December 2011 and a second revised draft in June 2012.
 - The second public draft has been subject to further discussion with SFT, Council Members and Council Officials, over the past six weeks.
 - Discussions over the past six weeks have produced a list of issues for consideration, prior to the production of a final version of the business case. A Table listing these issues, and indicating how these have been dealt with, is included as Appendix 1 to this paper.
 - The final TIF Business Case document, which takes full account of the content of Appendix 1, is attached as Appendix 2.
 - SFT currently expect the final version of the Business Case to be formally submitted for further consideration subject to Council approval.
- 5.3 This paper seeks approval or otherwise to submit the final business case to SFT, for their further consideration and, possibly, subsequent approval by Scottish Government. It is, however, understood that this paper will be discussed and scrutinised at this Committee.
- 5.4 Should Committee decide to support submission of the Business Case, it may be three to four months for SFT and Scottish Government to indicate whether or not they are able to approve the proposed TIF scheme.

6. IMPACT

Corporate

- 5.5 This project is a project focussed on the future attractiveness, vitality and connectivity of the City Centre and links to both the **Single Outcome Agreement and Community Plan 2008**, which outlines a vision for Aberdeen City which is wealthier, greener and safer. In particular this project links to the following National Outcomes

National Outcome	Description
1	We live in a Scotland that is the most attractive place for doing business in Europe
2	We realise our full economic potential with more and better employment opportunities for our people
10	We live in well-designed, sustainable places where we are able to access the amenities and services we need
12	We value and enjoy our built and natural environment and enhance it for future generations

- 5.6 The project enables significant investment in the City's social, cultural and leisure infrastructure and can contribute to '**Aberdeen – The Smarter City.**' This in turn supports the strategic vision of Aberdeen City and Shire, which is to be recognised as one of the most robust and resilient economies in Europe with a reputation for opportunity, enterprise and inventiveness that will attract and retain world-class talent of all ages.

Public

- 5.7 An Equalities and Human Rights Impact Assessment (EHIRA) will be undertaken once use of the space created by the five development projects within the TIF Scheme are more clearly defined. Nevertheless, at this point in time, the project is expected to have a positive impact in terms of EHIRA, due to
- a. the positive impact these projects will have on the future sustainable development of the Aberdeen City and Shire economy,
 - b. the major contribution it will make to Aberdeen's business and social infrastructure, and
 - c. the fact that two of the five projects will provide venues for major social, leisure and cultural events for all Aberdeen citizens.

7. BACKGROUND PAPERS

Council Paper EPI/12/032 (25 January 2012, Full Council)

Appendix 1 – Issues from latest draft TIF Business Case (Working Draft 3)

Appendix 2 – Final TIF Business Case Document

9. REPORT AUTHOR DETAILS

Gerry Brough
Project Director, Economic and Business Development
52(3197)
gbrough@aberdeencity.gov.uk

Steven Whyte
Chief Accountant
52(3566)
swhyte@aberdeencity.gov.uk

Jan Falconer
Manager Projects Partnerships & Funding
52(2662)
jfalconer@aberdeencity.gov.uk

Appendix 1

Issues from latest draft TIF Business Case (Working Draft 3)

Issues from latest draft TIF Business Case (Working Draft 3)

No.	Who	Page	Paragraph	Comment	Change
SFT = Scottish futures Trust, ACCo = Aberdeen City Council Officers, CM = Council Members					
1.	SFT	Section 1- Executive Summary	1.4.3-1.4.5	Executive summary needs to include a section on the financial exposure to the Council – in terms of capital cost and income streams. Highlight the risks and the ways to mitigate them and make reference to risk table in Section. These risks also need to be factored into the overall conclusion.	2 bullets added in Overall Conclusions in Executive Summary explaining the financial risks.. Para 1.5.2 added identifying the risk in achieving the £15k philanthropic donations & £20k grants/ donations and how this will be dealt. Also the risk of the required amount of grant money being unachieved and how the mitigations, how the £35 million offered to cover City Garden Project overruns 'de-risks the situations for the Council and other issues
2.	ACCO	10	1.4.5	This quotes displacement at 10% which is the level of deadweight.	The amount if displacement is 22.3% the final sentence in this para is added to read 'and further elaborate in 1.6.3]'.
3.	SFT	Section 1		Clarify the 'But for test in the economic argument. ' But for TIF what would happen in relation to the enabling assets and subsequent economic activity. This is in the document but needs to be spelt out up front. Should link to 5.7.11.	1.4.2 describes the enabling factors. Added to para 1.4.4 'But for' the TIF some potential developments may struggle to meet objectives or incur more costs, or delays or create uncertainty. The City Gardens, City Circle and Art Gallery provide open space and visitor attractions, 'But for' TIF we have available a viable funding option.' Added to para 1.4.5 'Given Aberdeen's global economy, 'but for' the TIF scheme, given the growth prospects of the City Region inward investment ' for, global industries that are complimentary to its existing global energy industry and, growing indigenous organisations would otherwise locate/ relocate out with the UK.' Added para 1.4.6 – links to 5.7.11

4.	SFT	Section 1		Clarify the role of the Aberdeen City Garden Trust - ACGT will provide capital funding, act as developer and also make £35 m available to cover project over-runs. Link this back to the risk table in section 8	Add para 1.5.2 1.will include that ACGT will provide capital funding, act as developer for and also make the £35 million offered by the Wood Family Trust available to cover project over-runs, for the City Garden Project
5.	SFT	Section 1		In summary the executive summary needs to put greater emphasis on the: <ol style="list-style-type: none"> 1. "but for case" 2. assets and why they are enabling, for instance the Art Gallery. 3. rational for the Red Line Area 4. Private sector development anticipated (sector split, value, timing) 5. financial risks to the Council Counter argument around Aberdeen's apparent buoyancy and need for growth in other sectors to off-set oil & gas.	1 As per answer to 3 See section 1.4.2, 1.4.3, 1.4.4 and 1.4.5 and overall Conclusions. 2 See 1.4.4 3 TIF RLA 1.4.4 and1.4.5 City Centre covered. To properly describe why the two satellite areas are included we have added the following to section 1.3.9 to include that the AWPR creates connectivity to these areas a rejuvenated City Centre can attract mobile investment to developments' 4 Private sector development anticipated- covered off in Finance and risk section 1.7.5 Strengthened in section 1.4 and the Executive Summary Conclusions.
6.	SFT			Important to detail how the assets taken together deliver the enhancements. I.e. how are they complementary in achieving desired outcomes? Also the 'sum of parts is greater than the individual elements'.	Again back in sections 1.4.2, 1.4.3, 1.4.4 and 1.4.5 and Exec summary
7.	CM	9	1.3.12	The word 'primarily' is not needed	The has been removed
8.	ACCO	10	1.4.2	Please note here and elsewhere that the building should be referred to as "Aberdeen Art Gallery". I'd suggest that the text should be amended to, " The project is to improve, develop and extend the	Done – added text to 1.4.2 and all City Art Gallery references changed to Aberdeen Art Gallery

				Aberdeen Art Gallery. This will ensure that its current range of high quality exhibitions can be sustained and further enhanced. In addition, opportunities can then be taken to host a wider range of local, national and international exhibitions and other cultural events".....	
9.	ACCO	10	1.4.3	Please note that the Art Gallery redevelopment project is ongoing; it is now working towards completion of RIBA Stage C.	This has been matched to the text in Section 2.5 Aberdeen Art Gallery, para two enabling infrastructure.
10.	SFT	16	2.2.6	Add a paragraph on the City's strategy for anchoring oil & gas and how this relates to the TIF. Include reference to Smart Cities initiatives and make reference to Energetica corridor.	Add para- 2.27. text that includes ACC's 5 year business plan demonstrates and articulates its commitment to anchoring oil and gas. Projects like the Strategic Hydrogen Projects Aberdeen City and Shire's Digital Connectivity Strategy , Aberdeen the Smarter City. ACC's Carbon Management Plan Energetica- the Green Development Corridor where the two TIF RLA satellite areas are a part of. ACC has agreed Energetica Masterplan which is part of Aberdeen's LDP 2012.
11.	ACCO	17	2.2.9	Line 3: Superfluous second bracket and full stop	Remove bracket and full stop
12.	CM	17	2.2.10	Why is the TIF scheme critical to generating economic benefit in the RLA?	This paragraph is expanded to read: Investment in infrastructure, as part of the TIF scheme, will improve the quality, attractiveness and vibrancy of the City Centre's built environment and this in turn will make Aberdeen a more attractive place for mobile investment. The recent Scottish Government publication "Scotland's Cities: Delivering for Scotland" states that "Cities are competing for businesses, highly skilled mobile labour, tourist activity and international student populations.

					Without an attractive, high quality physical environment and diverse cultural and social activities, cities and their surrounding regions, may struggle to attract investors, workers and visitors”. By creating a high quality physical environment in the City Centre, the TIF scheme will help to attract the level of investment needed from non-oil and gas businesses that is needed to ensure the success of new development in the RLAs discussed in Section 4. and enable growth through increasing non-oil related investment. Such investment is vital if Aberdeen is to diversify its economy and increase its’ Gross Value Added (GVA) per capita which, as can be seen from the Table in Appendix 1, has seen very little overall growth compared to Edinburgh and Glasgow over the past 10 years – despite the general economic strength of the oil and gas sector.
13.	CM	17	2.2.11	This discusses past levels of GVA and goes on to discuss the benefits in GVA for both the City but the Shire. It may help to split these two issues.	This paragraph to be split after the second sentence (after (see Graph2). Remainder of paragraph to become a separate paragraph (2.2.12) after Graph 2, which reads: Whilst a vibrant City Centre with a higher quality built environment, also has the potential to benefit Aberdeenshire by attracting investment to nearby business parks, such as the one in Westhill, and creating additional business rates, this benefit has been excluded from this business case. Nevertheless, such additional, non-quantified impacts are important to consider as part of the wider economic benefits that will be realised by the City Region as a result of the TIF Scheme.
14.	SFT	19	2.2.14	Make it clearer how economic growth will be	2.2.15. Text will cover The latest GVA figures show City

				generated by production activities and that growth in these (especially renewables) will, in turn, attract and increase <u>net additional</u> growth in business services (i.e. servicing the needs of growing businesses will create additional opportunities for service sector companies that will not lead to a commensurate reduction in service sector investment in Glasgow and Edinburgh (i.e. displacement).	and Shire as a high contributor in production, it underperforms in areas such as Business Services. The City and Shires' area of GVA strength is in Production has the potential to grow complimentary industries- renewables, etc and stimulate growth in business services that support the expansion attracted by production which supplements rather than displaces business services from elsewhere. There is also potential to develop of new business within in industries whilst attracting mobile investment. The aim is to do this with the minimum of displacement and the TIF mechanism provides the opportunity to achieve this
15.	CM	22	2.3.13	Need to justify the comment regarding the TIF scheme's ability to encourage the creation of decent jobs, economic wealth on a long term sustainable basis	Add in the paragraph- 'that show how AWPR provides the physical connections to development whilst the TIF mechanism will provide enabling infrastructure, attraction and the means of repaying the TIF borrowings.'
16.	CM	27	1 st para	Need to expand on how the CGP and private donations makes this viable	Add in this paragraph- text which identifies has decreasing and limited annual capital budget and has made no funding provisions for any of the projects listed with this TIF scheme. The £70 million public sector investment in the City Garden Project, the project is unable to be delivered and, therefore, the remaining four projects will struggle to generate the additional growth required to service the additional £22 million of public investment required to initiate the remaining four projects within the TIF Scheme.'

17.	ACCO	27	4 th para	Add enabling infrastructure to make development ready as this is more than demolition.	Change text to show that ACC agreed to proceed with this project in November 2011. Clarify that professional asset management advice received is that demolition of the building will reduce the overall value of the site, the project cannot be funded from the Council's capital plan. Costs would have to be absorbed by a revenue budget which is under pressure as a result of limited funding resources and competing priorities.' In para 5 discuss the current procurement current process.
18.	CM	26-28	4 th para	Need to elaborate on the capital budget and clarify the treatment and timing of the St Nicholas House site.	Refer to pages 28-29 This has been done, see question 17.
19.	SFT	27		The St Nicholas House development. Using TIF allows for site preparation and adds to the qualitative argument for the TIF scheme. However the document needs to make it clear that any receipts will be used to repay the TIF borrowings. Also needs to be factored into the 25 year timeframe.	In the 5 th para written shows that all receipts that the Council receives from any sale of this asset will be used to reduce the project's share of TIF borrowings within the 25 year timeframe.
20.	SFT	28		The St Nicholas House development. Some reference needs to be made to the fact that any investment in enabling infrastructure will be made by a JV partner and the Council will only reimburse this when the project construction starts , some point after the start of the TIF. The document should take account of the fact that this project may need to be removed from the TIF scheme, if	Refer to pages 30-31

				a) the enabling infrastructure needs to be put in place before the start of the TIF scheme or b) the developers do not really require a public sector contribution towards enabling infrastructure costs. SFT's point here is purely that the 25yr period starts upon Council's first material capital investment. It is for the Council to decide priorities/timings etc. No element of carrying costs as currently contained in business case should be incl. Need to also factor inclusion into 25 year timeframe	
21.	ACCO	28	2.5.3	Suggested rewording for project description - "The City's Art Gallery holds a unique and significant collection of artworks. ACC plans to redevelop Aberdeen Art Gallery to ensure it remains a successful visitor attraction and to make it an even more important destination for locals, national and international visitors. It is currently regarded as one of the UK's best regional Art Galleries, however it needs significant investment to sustain this richly deserved accolade and further improve."	The text has been added as suggested."
22.	SFT	28		The City Art Gallery Redevelopment- add that this will also contribute to adding rateable square footage which will contribute to the repayment of the TIF borrowings and that, overall, this project forms a key element of the City Centre redevelopment scheme.	Added to 3 rd para– text describing how the project creates additional rateable square footage which also repays TIF Borrowings in the form of additional NNDR. It is preferable to include the Art Gallery redevelopment in the TIF Scheme as it is a key element in the City Centre Redevelopment. This project ensures that both cultural assets, the City Garden and the historic Aberdeen Art Gallery complement each other and are both sustainable

					into the future...'
23.	ACCO	29		<p>While the point about the TIF being critical to the Gallery redevelopment is noted. However, the Council has committed funding to continue the design work to RIBA Stage D. This funding was agreed by the Council in the explicit knowledge that the prior to an application to the Heritage Lottery Fund in November 2011, that a request for Capital funding will made internally and the level of Council funding will need to be known if the application is to be successful. Working back from a re-opening date in early 2017, the project's current timeline needs to be maintained. More detail can be provided if useful.</p> <p>With that in mind, and the explicit statements made by the Administration in respect of the Art Gallery redevelopment, the last sentence in para.1 needs to be amended as follows:</p> <p>"An inability to secure this match funding will impact on the Council's ability to achieve all its capital aspirations - even etc"</p>	Additional 2 nd para text will include that ACC has committed funding to continue the design work to RIBA Stage D. The funding was agreed with the explicit knowledge that prior to an application to the Heritage Lottery Fund in November 2012, a request for Capital funding will made internally and the level of Council funding will need to be known if the application is to be successful. It will also include that the inability to secure this match funding will impact on the Council's ability to achieve all its cultural aspirations.
24.	ACCO	29		<p>Para. 2 - The need to achieve a harmony and connectivity between the City Gardens and the Art Gallery projects will be critical, however as the timelines may not coincide, we need to find an appropriate mechanism so that respective design teams can fully capitalise on each others thinking</p>	Refer to changes on pages 30-31

			<p>and enable full consideration to be given to achieving an integrated landscape, streetscape and other design prompts.</p> <p>Para. 3 - Please review the proposed wording in the correspondence with ACC ECS officers (29th June and 6th July) - It is incorrect to state that the failure to invest in the City Gardens and Art Gallery projects will make it more difficult to win the bid - also, we've been instructed by Council to prepare the bid, and submit it, subject to Council agreement - the word "any" is superfluous and incorrect. funding has been allocated to prepare the bid and also attract in additional funding.</p> <p>The context of the statements is appreciated, however the guidance received by ECS officers is that the level of resources and infrastructure in the city well places it to make a successful bid. ACC should therefore be VERY wary of making statements that create any impression that the failure to secure the TIF funding prejudices our bid. As has been pointed out, the previous potential bid did not factor in the TIF and it would be a high risk in terms of perception locally, as well as further a field if this impression persists.</p> <p>Other areas of the business case have reflected the timescale for other things happening being detrimentally affected by not achieving the TIF</p>	
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				<p>funding and it might be more appropriate to touch on this in a similar way in that bidding to become UKCoC may impact on other projects being achieved in currently envisaged timelines. In managing our bid communications ACC need to keep promoting the opportunity and not have to continually manage the consequences of other things, especially if we can work to achieve "clear water" between specific infrastructure projects and wider aspirations.</p>	
25.	ACCO	29	4 th para	<p>City of Culture Bid – second sentence should be less negative.</p>	<p>Final para in the section includes that ACC is currently preparing a bid for UK City of Culture in 2017. That the bid guidance is yet to be available, it is expected that a key component of a successful bid will include the demonstration of an element of capital (and revenue) investment necessary to support a portfolio of city centre venues with the capacity to host events, exhibitions and activities of national and international significance as well as to support the step change (or transformation) needed for a successful 'Year of Culture'. The infrastructure investment will enable the City to develop major international cultural alliances in support its cultural ambitions. Securing the proposed £164 million investment in the City Art Gallery and the City Garden will be a significant step towards supporting the Aberdeen City bid to become 2017 UK City of Culture.</p>
26.	CM	29	5 th para	<p>Rather than just considering the Train station</p>	<p>Changed 'Train station' to 'Transport Connections</p>

				consider changing to Transport links so as to include the Ferry, Bus and train terminals.	that cross the route'
27.	SFT	29	5 th para	Wording re connectivity and permeability is important here.	Change Project aim to read:-The aim of the pedestrian route is not only to provide connections across the City Centre but to make it a place to linger and to enjoy a variety of activities, include of working, dining, recreation, the theatre, culture and the green environment
28.	SFT	30		The North Denburn Valley Redevelopment- ACC currently has a car park and demolition of this will mean that ACC will loose a significant amount of annual receipts (c. £300K of operational revenue) in order to pursue this development - which is seen as a key element of the City Centre redevelopment scheme. This is a major financial contribution that has not been taken account of in the overall financial assessment and should therefore be highlighted as a sign of ACC's commitment to the project.	An additional paragraph has been added to reflect this change.
29.	CM	31	2 nd para	How, exactly, does the TIF scheme impact on the Denburn development	Text will include that such a development will provide quality Grade A accommodation enabling growth to support existing business and create new opportunities. By doing so it will generate additional NNDR to repay the TIF borrowings
30.	CM	34	2.6.2	Comment on the limited capital investment from the Council	Have checked this and it is consistent with the 5 year business plan.
31.	SFT	36	3.2	Elaborate ACSEF's priorities i.e. AWPR connections, City Gardens, as an investment attraction, Energetica Corridor Renewable energy,	3.2.1 to 3.2.3 expanding on the vision and priorities of ACSEF for the City and Shire, Energetica to develop a Green Development Corridor which includes the RLA, the

				skills development, anchoring oil and gas etc and possible Technology Centre of Excellence.	AWPR which will provided connections and enable the integrated transport system development and City gardens.
32.	CM	37	3.2.5	Typo	Change contributes in last sentence to contribute
33.	ACCO	41	Table Section 2, third line down	It has been noted that the funding has not yet been secured and a clearer definition should therefore be provided. To be reviewed given the Council has now committed £560,000 to take the design to RIBA stage D.	The wording will be changed to read: “Expected philanthropic funding from private sector donors.” Also added text which includes that RIBA D funding of £560k agreed by Council
34.	ACCO	42	Table Section 3, third line down	It has been noted that the funding has not yet been secured and a clearer definition should therefore be provided.	The wording will be changed to read: “Funding expected from Grant funders and via other funding mechanisms.”
35.	ACCO	42	4.2	Timeline - as above, the Art Gallery timeline is to be complete in early 2017 (second quarter) - that's month 72; the start date for construction is mid 2015; the project itself is now ongoing.	Early 2017 2n Q is month 68. Start being mid 2015 month 40.
36.	CM	44	4.3.1	Confirm whether this time table is still realistic, or alternatively amend it to take account of changed circumstances (i.e. in relation to St Nicholas House, mainly). At some point reference also needs to be made to the Table in Appendix 4, so this fits with the project development timescales.	In para 4.3.2. the text requires noting that the timescales are indicative as they are yet to be confirmed and are subject to agreement of the TIF Scheme Programme Management Board further described in Section 10. The majority of these projects are subject to a variety of processes, consents and agreements, of which can accelerate or delay the timeframes. It also requested to see Appendix 4 for further details.

37.	SMT	44	4.4	It is important in the document that it is clear that AWPR will create the transport connections for the satellite areas in TIF RLA- AECC/ A90 and Dyce Drive but that the TIF scheme is needed to support property occupiers in their efforts to encourage people, from outside Aberdeen, to come and work in these new development sites and use these new transport connections. In other words, make it clearer that the TIF is about making Aberdeen a more attractive location for people to come and work and a harder place for people to leave once they're there. Link this with Section 4.4	Text added to last bullet- to include that the developments in the AECC/ A90 and Dyce Drive satellite areas will benefit from the AWPR as this creates the transport connections for these developments but the TIF scheme will make the Aberdeen City Region an attractive option for both people from outwith and within City Region to live and work. Therefore the TIF Scheme will support development occupiers to attract the skilled workforce that is required for their investments.
38.	CM	49	5.2.3	This para could usefully expand on the Northern Lights document.	This is sufficiently covered
39.	CM	51	5.3.8	May want to say more about how, exactly, the TIF scheme impacts on efficiency and equity	This is sufficiently covered
40.	SFT	52-65	5.5-5.7	General Comment – need to closely link survey results to single displacement figure, ensuring any apparent contradictions with results and single figure (i.e. high level local demand) are explained for readers.	Undertaken by Mark Graham TBA
41.	SFT	67		SFT wish to use a “single” displacement value. They want a displacement figure and a deadweight figure in the economic impact assessment section, but only the displacement figure to be incorporated into the financial model. Business case should have a single displacement	Para 56.(.6 will be amended to read Based on the above assumptions and having regard to the potential uplifts arising from TIF that might occur outwith the City Centre (including the Dyce Drive and AECC/A90 satellite areas), the average level of deadweight ²⁸ may fall in the region of 25% over the 25

				figure with evidence of how this was built up. I.e. Displacement will be a weighted average across different displacement elements. Attach example table	<p>years of the TIF (i.e. accounting for both the differences in the profile and timing of development likely to arise with and without the TIF).</p> <p>The footnote will be amended to read:</p> <p>²⁸ Following submission of earlier versions of the business case, SFT have confirmed that deadweight should not be factored into the financial model and only displacement should be accounted.</p> <p>Table 8 demonstrate and supporting text demonstrates the single displacement figure based on average displacement of development type and drawn from the displacement of project type (Table 7) single displacement figure is 22.3%.</p> <p>.</p>
42.	SFT	67	5.10	<p>A paragraph needs to be added to refer to the acknowledge the fact that different displacement levels can apply to different development segments</p> <p>SFT's view is that displacement will vary across sectors. E.g. will be higher for retail and office. Need to see analysis of how these figures are arrived at</p>	<p>A new paragraph 5.10.5 will be added to read:</p> <p>Text in para 5.10.5 considers that different development segments will most likely have a different impact in terms of displacing economic activity. Although industrial developments in Aberdeen will have low displacement impact due to the fact that these developments are servicing a global market, mainly related to the oil and gas and emerging renewable energy sectors this is not necessarily the case for the retail, office, hotel and cultural developments. These segments generally service a more local market and therefore it can be argued that they will have a higher displacement effect than industrial developments. Accordingly, following discussions with</p>

					SFT - and taking account of displacement levels used in previously approved Scottish TIF schemes. Whilst it is understood and is further demonstrated that each segment will have a varying displacement figure, a weighted average will be factored. This is discussed in detail further in this section..
43.	SFT	67	5.9.5	Remove last bullet point as this is deadweight section not displacement (dealt with in next section)	Done
44.	SFT	67-68	5.10	It would be helpful to include a section here titled "Single Displacement figure" and expand in line with discussions i.e. across sector types and tie to survey results (Possibly separate out completely from Leakage, Substitution and Multiplier Effects section given importance to TIF).	As per question 46
45.	SFT	68	5.11	Update to reflect new displacement and deadweight assumptions	Done
46.	SFT	69 79-80 81-83 87	Table 8 Fig 16 & 17 Tables 12,13,14 Table 15	Need to be clearer regarding Dead weight. This looks too much. Recommend ACC, PwC and SFT work together to make this table clearer. This will in-turn impact Figures 16 and 17, Tables 12,13,14 & 15 in Section 7 and the accompanying analysis. This also should increase the revenue collection and alter the analysis in both sections. In the Economic impact Assessment the displacement figure should be different in each of the sectors? Also. The figures in 5.12.1 do not tie up and need to be reviewed. Main point here is to separate	Displacement in Section 5 is shown at different levels in the Economic Impact Assessment- see table 10. The displacement section now has a single weighted value of 22.3% Adding two tables 7 & 8. Impacting tables 14,15, 16 & 17 (formerly 12,13,14 &15) in section 7 and figures 16&17. Finance & EBD Teams have checked figures and they match.

				displacement and deadweight out as two separate items. FTEs will, therefore, change as deadweight and displacement figures are re-stated (probably downward?) and FTEs will require to be changed throughout the document. (Similarly for GVA)	
47.	CM	69 and 75	Figures 14 and 15	Need to explain why Figure 14 (pp69) and Fig 15 (pp75) are a different shape.	Para 5.11.6 added to this para is text that notes that it is important to note that different job densities have been applied to different types of development, as set out in Table 7, and different types of development come on stream at different times over the 25 year period. Denser development types i.e. offices and retail will come on stream quicker (in the City Centre TIF RLA) whilst less dense industrial operations will come on stream later (in the outlying satellite TIF RLA).
48.	CM	70	5.11.7	Add a table, Graph and paragraph showing the growth in GVA split across the TIF RLAs	Rather than doing this focus was on improving Table 8 which is now Table 10 and adding two tables and text that explains how the original displacement figure of 10% was arrived and then the rationale displacement figure of 22.3% which considered on advice from SFT based on benchmarking and various Scottish Enterprise studies.
49.	CM	70	5.11.8	Add a table, Graph and paragraph showing the total per annum uplift in GVA split across the TIF RLAs	as above
50.	ACCO	73	6.2.3	Refers to Figure 3 in section 4.3.2 and should refer to section 4.4.	corrected
51.	ACCO	74	6.4	Refers to 20 TIF site developments. Appendix 5 only lists 19.	There are 20. 15 City Centre, 2 Dyce, 3 Bridge of Don. One City Centre development was missing and has been included in Appendix 5

52.	SFT	76	6.3.3 / 6.4	Remove reference to deadweight (and ensure consistency throughout section as per comment below)	Dead weight reference removed from 6.3.3 and 6.4
53.	ACCO	77	7.2.2	“The profile of the £92 million funded by the TIF” should read “The profile of the publicly funded £92 million of the TIF”	corrected
54.	ACCO	77	7.2.4	Third line reads “The PWLB pooled rate” but should read “The PWLB rate” – remove the word pooled.	corrected
55.	ACCO	79	7.2.12	Talks about other revenue streams but the bullet points includes items that are INCLUDED in the TIF.	7.2.12 Has been adjusted to demonstrate potential revenue excluded from NNDR and TIF Loan repayments.
56.	ACCO	81	7.4.1	Refers to Table 14 but should be Table 13.	corrected
57.	ACCO	81-82	Table 13 and Table 14	Table 13 shows £11.9m but Table 14 shows £11.8m.	Table 13 and Table 14 are now Table 15 and Table 16. These tables, due to the change in displacement being 22.3% and increased Voids rate of 7.2%.reduces the payment timetable to 20 years with NNDR collection of £13.8m. Now both Tables match
58.	SFT	77-88	Chapter 5 and Chapter 7	The issue of additionality needs to be more consistently dealt with across these two chapters. I.e. displacement is factored into the TIF capture mechanism as per TIF legislation and is used in the EIA along with deadweight. The text in section 5.10 will also be amended to more clearly confirm why a displacement figure of 10% has been arrived at or whether it is more appropriate, on reflection, to assume a higher displacement figure	PwC and ACC officials will address this point by amending the text in Chapter 5 and 7. Changes to chapter 5, sections 5.9 and 5.10 have already been covered above. However, Table 8 which is now Table 10 changed to separate the third column (Average deadweight/displacement (“but for”) into 2 separate columns for “non-additionality”. The first column will be “Displacement” and the second “Deadweight”. A weighted

				<p>(but probably not as high the 35% suggested in Chapter 7?). Table 8 should be amended to separate additionality from deadweight and all reference to deadweight should be removed from chapter 7. A paragraph should be inserted in the introduction of Chapter 7 to confirm that, although deadweight is relevant when assessing economic impact in the previous chapter, the SFT TIF guidelines stipulate that deadweight should not be included in any financial model used to determine estimated NNDR flows. As per the TIF capture mechanism contained in the Non Domestic Ratings Contributions (Scotland) Amendment Regulations 2010. Consequently Chapter 7 requires that a more thorough explanation, based purely on the anticipated displacement impact of the TIF scheme, is provided to explain the displacement figures used in the financial model. This displacement figure should be consistent with the displacement figures shown in Table 8 (once separated from deadweight). Table 8 should also be brought into the Executive Summary, since it provides a good summary analysis</p>	<p>value of 22.3% of Displacement to be applied refer to section 5.10. An average deadweight figure of 25% will be applied across all segments.</p> <p>This will have an impact on following tables and text in section 5.11</p> <p>Para 7.2.9 will be expanded to give a more thorough analysis of displacement in relation to the various development segments used in table 7. Only the displacement figures shown in Table 10 will be applied to the financial model (i.e. deadweight will be excluded from the financial model). The text in section 5.11 will also be amended to more clearly confirm why it has been deemed appropriate, on reflection, to assume a higher displacement figure the why displacement figures of 25% for non-industrial and 20% for industrial have been arrived at</p> <p>Table 10 has been brought into the executive summary and discussed accordingly.</p>
59.	CM	80	7.2.11	<p>Check these numbers. If they are correct the paragraph needs to explain more clearly whether this is a discounted figure and how it compares to make this clearer as it does not make sense.</p>	<p>PwC to check. Suggested new wording:</p> <p>Deductions are made to the Gross NNDR figure for the x% displacement assumption and for voids which have been assumed to represent 5% of the revenue after displacement. The resultant net NNDR revenue totals £190m over the 25 year period, assuming there is no</p>

					<p>NNDR inflation over the same 25 year period. The Net Incremental Revenues (after deductions for displacement and voids) are shown in detail in Table 14 (page 82) and illustrated below, in Figure 17.</p>
60.	CM	82	7.4.1 Table 13 and 14	<p>Net NNDR numbers in Table 13 (£11.9 m) do not match last five rows in table14 (£11.8m). The text also needs to make it clearer whether these are discounted NPV numbers.</p>	<p>PWC to confirm if mismatched numbers are just due to rounding and whether they are discounted numbers.</p>
61.	SFT	82	7.4.2	<p>Table 14 – please clarify that the final 2 years surpluses (£11.8m in each year) is pre the split with SG? Perhaps these should be modelled as £5.9m in each year. I.e. 50% of NDRs? May have this wrong so happy to discuss if required.</p>	<p>Table 14 is now Table 16. Final surpluses are now £13.8m. Para 7.4.6 considers the 50:50 split. Reads ‘7.4.6. The base case financial model prepared by PwC indicates that, where all revenues are allocated to debt service, the loan could be paid off during the period 1 to 20 years of the 25 year TIF period with a potential surplus of revenue totalling £72m between years 20-25. This provides a significant “debt tail” for ACC to mitigate any shortfall in repayments in earlier years or slower than anticipated take up of new development (and thus incremental NNDR arising). Under the terms of the TIF agreement with Scottish Government any such surpluses would be split on a 50:50 basis with ACC’s share therefore being £36m in the base case. It is stipulated in the TIF Agreement that any such ACC surplus must be spent on further infrastructure improvements.’</p>
62.	CM	85	7.4.9 7.4.10	<p>What is the possible quantum of the interest gap (upper and lower estimates). May also need to give some examples of the ways in which ACC can manage the timing of cash flows.</p>	<p>See.</p>

63.	CM	87	Para 7.5.2 and Table 15	Does not take into account the Wood Family Trust £35 m, which does away with the first sensitivity (10% increase in capital costs).	The paragraph will be amended to state that since the sensitivity analysis was completed the Wood Family Trust has confirmed that they will make a further £35 million available to cover any unexpected cost over-runs and a note added to the table.
64.	SFT	Section 7		The business case should make reference to the potential use of developer contributions payable in the TIF areas. It would be helpful to detail what the current policy is and confirm that normal practise will prevail in TIF areas. Detail (perhaps in financial/ revenues section) that any contributions received will be used to offset TIF debt (although won't necessarily be modelled for revenue purposes).	Added a section that will include other Revenue cover sales proceeds and 2 nd para -The Local Development Plan 2012 has policy and guidance regarding Developers Contributions for infrastructure. Policy I1 – Infrastructure Delivery and Developer Contributions covers the infrastructure, services and facilities such as schools, roads and essential services required to support new or expanded communities and the scale and type of developments proposed in the Masterplan Zones two satellite areas are included in these Zones but excludes development in the City Centre Area. The policy therefore excludes contributions covering the enabling infrastructure in the City Centre as it is outwith the scope of the Policy.
65.	SFT	89	8.1	Requires an expansion of risks. Risk section to be expanded to address issues discussed at meeting between SFT and ACC officials on 4 July	ACCO/PwC to add further comment.
66.	ACCO	89	Risk 1	Explain what would happen if ACGT does not come up with the remaining £15 million	Last Bullet in Risk 1 includes there is £55 million of pledged philanthropic donations with a further £15 million required. The sourcing of these funds, if not provided before hand may form part of the development agreement with ACGT
67.	ACCO	89-90	Risk 4	Bullets are not aligned	Fix alignment of bullets

68.	CM	90	Risk 4 last bullet	Typo.	This will be changed to read: Understand and influence the demand for development as ultimately it is new property occupiers that will pay the business rates used to repay the TIF borrowings.
69.	SFT	93	8.5	Make reference to discussions ACC has already had with State Aid Unit and include any wording they are comfortable with providing.	Refer to 8.5
70.	ACCO	93		Add a section on risk of NNDR	Awaiting comment from either CBRE of Aberdeenshire.
71.	ACCO	93	8.6.1	Further expansion to the Finance comments required.	See section 8.7 and conclusions. There is a Financial risk table.
72.	SFT	93	2 nd bullet	Mention the £300k pa in lost income from Denburn car park and the fact that any receipts from this development would also be used to repay the TIF debt.	Page 31, page 28 receipts to allow the city centre regeneration and to reduce the debt In risk section
73.	CM	93	8.6.1 7.7 final bullet	The comment has been made that this seems insufficient considering we have an award winning finance team. This needs more substance.	Added three sections to section 8.6 NNDR & Revenue Risk, which examines risks and mitigations to receiving NNDR. 8.7 Financial Implications and risks to ACC which explores the risks & mitigations to ACC of the TIF loan in terms of the financial model, in section 7, Sensitivity analysis, Public Works Loans Boards Rates, NNDR Poundage- what happens if it increases or decreases, Displacement & Deadweight, Voids, Public sector contribution, Adjustments to NNDR, and over all financial implications. This is followed by a Risk Table which uses a traffic light system to identify key risks. Final conclusion adds three new bullets that say the following:- The TIF business case allows for adverse movements within the model and for the TIF still to be

					deliverable within the base assumptions that have been set. It should be understood in conjunction with the possible scenario of all the base assumptions moving as the project moves forward. There are a number of risks contained within these base assumptions and the Council would have to ensure that it mitigated these risks where ever possible. Ultimately the TIF business case shows that there is a robust financial model with inherent risks that would have to be managed or mitigated where possible.
74.	CM	94	9.2.1	Typo.	Change AGCT to ACGT- done
75.	CM	95	After 9.2.1	It would be useful to know the expected time frame for completing the development agreement.	A paragraph will be inserted before 9.2.5 here to confirm the time frame for negotiating a development agreement, should the TIF business case be formally submitted to SFT and subsequently approved by Government.

FINAL TIF Business Case Document