Room 151
Local Government Treasury, Technical & Strategic Finance

Croydon seeks rates deal to fund £300m TIF development

By Colin Marrs, 24 Sep, 2015

London Borough of Croydon has submitted a bid to the Treasury to exempt town centre sites from periodic business rates resetting in order to fund £300m of borrowing for new infrastructure.

The council was granted £7m in chancellor George Osborne's March Budget, subject to a business plan being drawn up for its Growth Zone covering central Croydon.

Richard Simpson, assistant chief executive (corporate resources and section 151 officer) has revealed that the plan, submitted as part of English councils' devolution bids, calls for the creation of a tax incremental finance (TIF) scheme, with the £7m being used to fund initial interest payments on £300m of borrowing.

Simpson told Room151: "We are looking to borrow the £300m but because development will take a while to deliver, it will be around four years before we start benefitting from the retention of an uplift in business rates.

"We are hoping the Treasury will allow us to use the £7m it promised to fund the interest on the borrowing during this period."

He said that the council could approach the Public Works Loan Board or European Investment Bank (EIB) for the borrowing necessary to provide the infrastructure, which includes road, rail and tram upgrades, schools funding and public realm improvements.

"Earlier this year we borrowed £102m from the EIB for schools investment at a better rate than the PWLB, so we will most likely approach them again," he said.

The council and Greater London Authority would repay the borrowing by retaining their share of any uplift in business rates on development within the growth zone.

Simpson said that 85% of the expected uplift would come from just two proposed regeneration schemes – the redevelopment of Croydon's shopping core by developers Hammerson and Westfield, and a residential and office scheme by developer Stanhope and investment firm Schroders.

If the Treasury allows Croydon an exemption from the proposed 10-yearly resetting of business rates, it will provide the certainty necessary to repay the debt over a period of 20 years, Simpson said.

If blessing is received from Whitehall officials, the scheme would become the biggest TIF outside of an enterprise zone in England.

In March, Osborne gave London Borough of Barnet permission for another £97m TIF which will allow Brent Cross to fund half the cost of a new train station at Brent Cross.

In 2012, Birmingham's enterprise zone – automatically exempted from business rate resetting – announced it would undertake a £119m TIF scheme. An enterprise zone is also being established in Nine Elms, London, enabling another TIF – worth up to £660m – to help fund the proposed extension of the Northern Line.

Prior to this year, outside of enterprise zones, the government has only previously allowed three ring-fenced TIF schemes. In July 2012, it announced three deals for Newcastle (£92m), Sheffield (£33m) and Nottingham (£8m).

Chris Shepherd, director at 31ten Consulting, which provided advice on the financial mechanism, risk and modelling to the council, said: "The nation is going through a process of devolution. This is a great example of where the GLA and Treasury are working to make devolution a success by addressing local needs with national money."