BUSINESS RATES & TIF

A consultation response from South East England Councils

1 December 2010

South East England Councils
Chairman: Cllr Paul Carter, Leader of Kent CC
South East England Councils is a membership organisation representing the democratic voice of all tiers of local authority.
The SEEC area covers 74 local authorities in Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey.
www.secouncils.gov.uk

1. The principle of localism

1.1 SEEC strongly supports the principle of localism and devolution of greater responsibility and self-determination to local government. In this context we welcome proposals to incentivise local authorities via the prospect of business rate retention and to allow greater freedom to borrow against locally generated revenue.

1.2 In establishing the details of how these systems work, however, it is important to take into account specific issues about how they would affect the South East. Particularly important is recognition of the fact that redistribution of locally raised funds away from the South East has potential to be counter productive and act as a <u>disincentive</u> to South East councils. While we recognise there is likely to be a need for some redistribution of funds, we would be disappointed to see the principle of incentivisation undermined by an unfair redistribution to other parts of the country. Redistribution needs to be fair and transparent.

1.3 In the spirit of greater local determination we also welcome the recent announcement that the localism bill will allow business rate discounts to attract new business or to support businesses vital to local communities. This provision would be particularly welcome in the South East's significant deprived areas where the future prosperity of some 500,000 people depends on attracting and growing business to deliver economically-driven regeneration.

1.4 We feel strongly that the option to offer business rate discounts must be available to South East councils on a locally determined basis. Earlier this year, the South East was specifically excluded from the scheme to offer National Insurance discounts to new businesses. We want to make the case as strongly as possible to ensure that such a South East exclusion is not repeated on the issue of business rate discounts.

2. Incentivising business growth in the South East

2.1 The South East of England is the engine room of the UK economy, contributing over 15% - some £182bn[1] - of national GDP. These impressive figures disguise the enormous diversity of an area with over eight million people[2], nearly 400,000 businesses[3] and a range of infrastructure challenges – from overloaded services in some areas to poor transport and lack of broadband access in others. Our area encompasses the globally-connected economic strengths of the Thames Valley as well as economically-challenged, deprived and difficult-to-access coastal towns, such as Margate and Hastings.

2.2 SEEC believes that business rate changes offer an important incentive for local authorities to help drive forward the economy in both underperforming and already-successful areas. In addition, TIF could offer an alternative source of financing for some of the essential infrastructure projects our area needs. The diversity of the South East

[1] ONS, 2008
[2] ONS, 2009
[3] ONS, 2008

means that in some places we need investment to help grow and attract new business, while in other places our priority is upgrading infrastructure to maintain the global competitiveness that attracts companies to locate here rather than overseas.

2.3 Statistics on the South East often create a perception of general prosperity that disguises the stark contrasts within the South East and our significant areas of economic need and deprivation, with 500,000 people living in areas that rank within the 20% most deprived nationally[4]. Deprivation is heavily concentrated on the coast, in areas like Margate, Hastings and Urban South Hampshire, but pockets of deprivation also exist in otherwise prosperous parts of the inner-South East, including Slough, Oxford, and Milton-Keynes.

2.4 Despite being a region of economic contrasts, the South East contributes more to the Treasury each year than is spent on public services in our area, some £18 billion according to latest data[5]. After the South East, the highest net contributor, only two other areas make a net contribution to the Exchequer – London and the East of England. All other areas of the country receive more in public spending than they contribute.

2.5 The South East's Treasury surplus is redistributed to support public spending and investment in other areas of the country. In this way, the UK's overall financial welfare and competitiveness is inextricably linked with the South East's continued success. Given our status as the safety net of UK public spending, economic growth in other areas of the UK must not be at the expense of declining investment and performance in the South East economy.

2.6 While we recognise that an element of redistribution is essential to support growth in other areas, there is a real risk that unfair reallocation of locally raised funds, such as business rates, would undermine the principle of incentivisation and could unintentionally create a disincentive to further growth in the South East.

3. Role of TIF in the South East

3.1 We welcome TIF as an option for delivering infrastructure to support economic growth – for example there are areas where it could raise funding for much needed transport links that could unlock sites for housing and economic development.

3.2 TIF funding could also be used to help overcome some of the barriers to maintaining the South East's global competitiveness such as congestion and lack of affordable housing for workers.

3.3 Businesses are increasingly concerned that the area's future success is threatened by lack of funding for the necessary infrastructure and TIF funding could go some way towards providing the essentially-needed

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[4] Index of Multiple Deprivation, ONS, 2007

[5] 2006-07 (Oxford Economics). While some of this contribution represents the link with London, almost £15 billion was directly from employment within the South East.

funding. Without TIF as a catalyst to make things happen there is a real danger that the necessary improvements will not be delivered. There is already evidence that our global competitiveness is slipping due to increased competition from emerging economies. The latest World Knowledge Competitiveness Index[6] shows that the South East slipped from 55 in 2005 to 74 in 2008. Investment in the South East will encourage businesses to locate in the UK rather than Europe, the US or Far East – failure to invest will drive businesses overseas rather than to another part of the UK.

3.4 There are also concerns, however, that TIF is not a panacea and may not always be suitable for areas least primed for growth where economic regeneration will be a long term project. Places with entrenched poverty and unemployment are still likely to need public sector investment from national sources, such as the Regional Growth Fund, to supplement work that can be funded via TIF.

4. Specific business rate/TIF consultation questions

Would you favour a business rates retention model as a more radical alternative to Business Increase Bonus?

4.1 In line with the principle of greater local determination, we support business rate retention over a Business Increase Bonus. We feel the bonus approach may not take full account of local circumstances, its short time limit offers a less permanent solution and may not offer sufficient incentive for local authorities.

4.2 In moving to business rate retention there are many issues to be resolved, for example around how this would fit within the wider structure and review of local government finance and – of particular interest to the South East – the need for a fair, transparent approach to redistribution of tax income across the country.

How would such a model change your approach to Tax Increment Finance, if at all?

4.2 We would need to see more detail on the proposed model to provide informed feedback on this. However, initially it appears that the longer term approach of business rate retention would support TIF more effectively. It is not clear whether a 6-year time limit on Business Increase Bonus income would be sufficient to fund TIF projects.

Do you have any specific issues, concerns or proposals in relation to a business rate retention model or Tax Increment Finance?

4.3 The main area of concern for South East councils is around identifying a fair and transparent approach to redistribution of business rate income to different tiers of council or where councils are unable to raise enough money locally. It is important that a redistribution system does not unintentionally act as a disincentive to South East councils if they gain little local benefit from local economic growth.

[6] Centre for International Competitiveness, 2010

4.4 We believe some form of redistribution will be essential as some councils raise more than they spend, while others raise less. The question of fair redistribution is as valid within the South East as it is when redistributing nationally. There would need to be clear, transparent guidelines on how funding would be redistributed.

How should Government support local authorities to introduce Tax Increment Finance?

4.5 We welcome the TIF approach as an alternative source of finance for projects that otherwise may be unviable, or as a way to give a confidence boost for an area, making it more attractive to private sector investors. TIF will also help fund delivery of essential infrastructure in advance of major developments.

4.6 There are also areas where we need more detail on how the scheme would operate. These include:

- Greater clarity on how a bid process would work and the flexibility available within the system to meet the need for different types of investment in different areas. This is particularly relevant in the South East where we have an exceptionally diverse economy with both significant deprivation and some highly successful areas (see 2.1 above).
- How TIF would apply to the South East. The Local Growth White Paper, for example, talks about TIF applying to ‘major urban conurbations’. Areas of the South East do not have major urban conurbations on the scale of cities such as Birmingham and Manchester but do have a need for investment to drive forward economic growth. We do not want to see the South East excluded from TIF because its economy and geography does not match those of other areas of the country.
- More detail on how uplift in business rate income would be calculated to help councils manage risk effectively.

4.7 We would also like to see consideration of alternative sources of investment where TIF may not be an attractive or viable option for councils. For example investment of a different type is likely to be needed in the South East’s concentrations of deprivation and market failure, which under-perform against South East and indeed national average GVAs. For example, business start-ups, at less than three per 1,000 population, are lower than national average on the south coast.[7] In these areas TIF is unlikely to be suitable for funding long term economic regeneration programmes so we would like to understand the alternatives that may be available.

4.8 We would welcome the opportunity to meet to discuss how we can best refine the design and implementation of TIF and changes to the business rates system.

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[7] In the coastal South East during 2007 there were fewer than three start-ups per 1,000 population, compared to the average rate across England of 3.5 and a South East average of 3.9. Source: ONS VAT Registrations/Deregistrations 2007.