CEDOS

Chief Economic Development Officers' Society

Working for Economic Development

Local Growth White Paper

Consultation on local growth and the business rates system – CEDOS views

November 2010

Chief Economic Development Officers Society

The Chief Economic Development Officers Society (CEDOS) provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils in non-metropolitan areas, which together represent over 47% of the population of England and provide services across over 84% of its land area. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

Local Growth White Paper – Consultation on Local Growth and the Business Rates System

Response by the Chief Economic Development Officers Society (CEDOS)

1. CEDOS welcomes the Government's Local Growth White Paper and its emphasis on realising every place's potential. We are very pleased to take the opportunity to put forward our views on the set of questions in the White Paper on local growth and the business rates system. Our views have been formulated in the light of consulting with our members from across the country.

CEDOS overall views

2. We welcome the Government's acknowledgement of the importance of sustainable local economic development and the crucial part it has to play in achieving national economic recovery. As we have consistently argued, empowering local areas and ensuring that the necessary resources are available to unlock and underpin local economic growth is critically important. In this context, we support the Government's commitment set out in the White Paper to:

- give greater incentives for local growth;
- equip local areas with the tools they need to create and shape dynamic and entrepreneurial local economies;
- introduce Tax Increment Finance (TIF) powers.

3. We strongly support the emphasis on localism and decentralisation in the White Paper and we agree that meaningful decentralisation "must involve giving local communities more power over their finances". This very much accords with the case put forward in our recent report on taking forward economic development and regeneration[1] that "a truly devolved approach to economic development designed to boost enterprise and support sustainable economic growth needs to be underpinned by more locally derived resources and more freedom for local government to explore alternative means of raising finance".

4. Our initial responses to the specific questions in the White Paper are set out below. We will, of course, be pleased to make a more detailed input on, for example, business rates and tax increment finance as more details of Government thinking emerge. Indeed, we will be very pleased to work with government on the approach to financing local economic growth including the introduction of TIF, in the context of the Local Government Resource Review.

---

[1] *Recession & post-recession – Taking forward economic development & regeneration*. Chief Economic Development Officers Society & Association of Directors of Environment, Economy, Planning & Transportation July 2010

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

CEDOS Views:

5. We support the Government's intention set out in the White Paper to provide real and significant incentives to support local growth. Whilst more details are required on the alternative models before a definitive view can be put forward, in principle we favour a business rates retention model. This would provide local authorities with a more consistent budgetary picture; a greater level of control and flexibility over the funding, and support the drive towards stronger 'localism'. Although a Business Increase Bonus has merits, it is likely to be less transparent & predictable, and the size and length of scheme is unlikely to be enough to enable or encourage sufficient investment to drive local growth.

6. Whatever model is ultimately decided on, it must provide for a genuine long-term incentive to support sustainable local growth. At the same time, it must have the flexibility to unlock the economic potential of all areas and should not disadvantage authorities that benefit under the existing system. In this context, an appropriate mechanism will be needed to ensure that "fair consideration and treatment of all areas" is achieved.

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

CEDOS Views:

7. Local authorities have a key role with their partners in financing and delivering this country's infrastructure to underpin sustainable economic growth. There is a need for local authorities to have the freedom to explore new approaches to access resources. We welcome the announcement in the White Paper that the Government will introduce new borrowing powers to enable authorities to carry out Tax Increment Financing as a new tool for enabling additional investment to go ahead.

8. The essence of TIF is that it allows for borrowing to undertake development against forecast future business rate uplift. It is underpinned by the principle that investing in infrastructure leads to more businesses being attracted to the area, which in turn increases the amount of taxes raised from businesses.

9. Whilst more detail is required on the new borrowing powers, the improved certainty of local income that the re-localisation of business rates would provide should increase the ability/willingness of local authorities to undertake tax increment financing. They would be better placed to manage the financial risks and benefits of TIF projects as a result of the security that they would retain the business rates generated to pay back borrowed finance.

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

CEDOS Views:

10. At this stage we would like to make the following points with regard to business rate retention:

- there needs to be a mechanism either within or alongside the business rate retention model to encourage business growth in rural and other areas where there is a limited business rate yield to achieve the Government's ambition of fostering prosperity in all parts of the country;

- there needs to be clarity on whether local areas will be able to determine their own business rates, or whether these will be set nationally. Whatever approach is taken, attention needs to be paid to the business response to the relocalisation of business rates. It will be important to make the link between the localisation of business rates and the influence of business over local priorities through Local Enterprise Partnerships;

- there needs to be a realistic basis for the distribution of retained business rates in 2 tier areas between the District Councils, who collect the rates and the County Councils, who often undertake the greater amount of activity, as well as taking the strategic approaches to economic development. It is our strong view that the distribution of retained business rates, or indeed any other form of business growth incentive, should be in proportion to the spend on relevant services that support economic development, including capital investment.

11. As regards TIF, the White Paper anticipates that, at least initially, it would be introduced through a bid-based process with lessons from a set of initial projects informing future use of the proposed new borrowing power. Whilst a pilot phase designed to provide a better understanding of the risks and practicalities of TIF and to develop best practice has merit, we believe strongly that TIF must be open to all authorities and should not be based on a bidding process. Quite apart from the fact that such a process would run counter to the principle espoused in the White Paper that national economic development policy should be able to demonstrate fair treatment of all areas, it would introduce an unwanted bureaucracy, which would impose an additional cost on local authorities and be an unnecessary barrier to local economic action.

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

CEDOS Views:

12. We await detail of how the new TIF borrowing power will operate. At this stage, we would like to put forward the following suggestions:

- *forecasting growth/future revenues* – particular attention will need to be given to this and it will be very helpful for Government to provide guidance backed by gathering and sharing best practice;

- *developing a business case for TIF* – this could be very resource intensive/costly for individual authorities. Government could assist by providing a central source of expertise;

- *freedoms & flexibilities* - the Government can support the introduction of TIF, through maximising the flexibility of possible projects (in terms of value and type of project) subject to appropriate economic impact and fit with local policy. Freedoms should also be extended to the ability to match with alternative funding sources, in particular the Regional Growth Fund and European funds, including JESSICA and ERDF, where applicable and where there is a business case;

- *managing risk* – whilst TIF has the potential to be an important tool to enable councils to promote growth, the risks involved should not be underestimated. Involving private developers in funding can reduce these. In designing the new borrowing powers, Government should give consideration to means of encouraging developers to pro-actively engage with TIF schemes.