Consultation Response

LONDON COUNCILS

Local growth: realising every place's potential – White Paper

Local growth and the business rates system

Response by London Councils

This response sets out the views of London Councils on the questions raised as part of '*Local Growth: realising every place's potential – White Paper*'

London Councils represents all 32 London boroughs, the City of London, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority. London Councils is committed to fighting for more resources for London and getting the best possible deal for London's 33 councils. We develop policy, lobby government and others, and run a range of services designed to make life better for Londoners.

Introduction

London Councils welcomes the opportunity to comment on the Government's proposals in the '*Local Growth: realising every place's potential – White Paper*' (the White Paper).

In addition to our response to the consultation questions, we would like the following comments to be noted:

- In principle, London Councils welcomes the proposals set out in the White Paper for a range of local finance incentives including the New Homes Bonus (NHB), Tax Increment Financing (TIF), and a Business Increase Bonus (BIB).
- Business rate incentives and the retention of business rates is a complex area and needs to be considered in the context of the wider local government finance system. In particular, it is difficult to comment on the potential for a locally retained business rate until we fully understand the impact on Formula Grant distribution of the funding changes and mainstreaming of central grants announced in the Spending Review.
- The White Paper sets out its intention to evaluate locally retained business rates model as part of the Local Government Resource Review. This review will be carried out between January 2011 and July 2011. Legislation is unlikely to be in place until 2012 at the earliest, so there will be a considerable time lag before such a scheme is introduced. London Councils offers to work closely with the Government to assist in the design and implementation of a business rate retention model as part of the review.

- London Councils is also offering to work with the Government in designing incentive models such as BIB and TIF.
- In addition, London Councils asks, as part of the Local Government Resource Review, that the Government gives consideration to giving local authorities additional income and tax raising powers to support their local economies and meet the costs associated with those economies. For example, London generates a significant proportion of tourist revenues in the UK and, as a consequence, bears a significant proportion of the cost of tourist pressures. A tourist tax in London could be used to support the local tourist economy and would help mitigate the costs that tourists impose.

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

- While recognising the detail of a retention model has yet to be worked through, in principle London Councils is in favour of the proposal, and would be in favour of considering this in the context of a 'London Pool'.
- However, it is difficult to comment on a preference between BIB and a retention model as only minimal information is provided in the White Paper as to how the models could operate. As such we are unable to fully analyse how a BIB or potential retention model would work, how they might impact London authorities, and their effectiveness as incentives for local economic growth.
- It is not clear from the limited detail in the White Paper whether the Government intends to introduce BIB instead of, or as a precursor to, full retention of business rates.
- Given the likely delay in enacting legislation to allow local authorities to fully retain business rates if a full retention model is pursued, we would ask that the Government considers how local finance incentives (in addition to the New Homes Bonus) could be introduced more quickly in order that local authorities are able to financially benefit from growth in their local business rate base.

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

- The relevance and positioning of a TIF model would be very dependent on the design of any retention model. For instance in a 'London Pool' retention model consideration would need to be given to mechanisms for gaining consensus about the extent to which anticipated growth in a TIF area can be hypothecated for the investment as opposed to added to the wider pool.

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

Business Rate Retention

- London Councils would, in principle, support a local business rate retention model. However, until details are known about how a possible model would work in practice it is difficult to comment further. London Councils would like to work with the Government to assist in the design and implementation of a business rate retention model as part of the Local Government Resource Review. We would be grateful for any additional information that the Government can provide on the initial approach to a business rate retention model, and how it might operate in London, particularly with reference to a 'London pool'

- Business rate incentives and the retention of business rates is a complex area and needs to be considered in the context of the wider local government finance system. In particular, it is difficult to comment on the potential for locally retaining business rates until we fully understand the impact on Formula Grant distribution of the funding changes and mainstreaming of central grants announced in the Spending Review.
- Any business rates revenues retained under a business rate retention scheme should be unringfenced at the local authority level and free of reporting requirements.
- Set out below are some issues which will need further consideration in designing a model of business rate retention.
  - Variance in business rate base and yield between authorities will require a degree of equalisation either nationally or regionally.
  - The method for setting the business rate multiplier will need to be carefully considered. There should be a framework which allows flexibility at the local level. While recognising the concerns of businesses about the potential for high increases in some authorities we would not advocate an expensive and bureaucratic referendum style model as being proposed for Council Tax.
- Other issues which we would wish to discuss with government include:
  - Business rate reliefs
    - In a retained business rates system how would business rate reliefs work (eg Small Business Rate Relief and transitional relief)?
    - Would reliefs be locally decided and therefore become discretionary? Or would there continue to be an element of 'mandatory' reliefs set at the national level? If so, would local authorities be compensated for these reliefs from national taxation?
    - What about exemptions? Will local authorities be able to devise other exemptions/variations to suit local economic circumstances?
  - The role of central government in a locally retained model
    - Will the multiplier continue to be set centrally and capped at RPI?
    - Will the Valuation Office Agency continue to perform valuations and revaluations?
    - Will revaluations still proceed at 5 yearly intervals?

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

- Each scheme must demonstrate additionality regarding business rate revenue. The mechanism to demonstrate this should be rigorous but not overly bureaucratic and complex as to significantly limit the number of TIF schemes or make the costs of preparing a scheme prohibitive for boroughs. TIF should become an important tool genuinely open to all suitable schemes. The Government should not impose arbitrary limits on the number of TIF schemes.

- The Government should consider whether other tax and income streams in addition to business rates may be suitable for TIF arrangements, either within a fixed legislative framework, or by contractual agreement on an ad hoc basis. For example, stamp duty and corporation tax revenues from new business start-ups could be used. For major schemes, the government may wish to look at the total tax additionality of the scheme with the local authority.