



LOCAL GROWTH

BCSC Submission to Government White Paper

1 December 2010

1. BCSC

BCSC represents businesses operating in the retail property sector, our mission being to promote industry best practice and advance the professional aims of the retail property industry. Our membership is a broad church of around 2,600 property professionals including owners, developers, retailers, surveyors, architects and public sector managers.

The retail and retail property industries together play a strategic role in sustaining communities, with 7.6 million people currently employed in the UK. In 2008 alone around £6 billion was invested in the UK by the retail property industry, creating tens of thousands of new jobs.

Given our unique position at the heart of the retail property industry - an industry which has played a crucial part in revitalising many of our towns and cities, including in recent years Liverpool, Manchester and Bristol - we welcome the opportunity to put forward our response to the Government's White Paper.

2. Summary of BCSC position on local growth

During the last 2 years, we have seen a radical change in the fortunes of retail led development. The stark consequences of the UK banking crisis, combined with falling capital values and consumer demand has had a profound effect. Add to this the reluctance of banks to provide loan facilities to commercial property, and in particular, development, and we have the recipe for stagnation. Our research (http://www.bcsc.org.uk/publication.asp?pub_id=351) shows that virtually all development that is not under construction at present is unlikely to be delivered for several years. This will have a dramatic impact on the regeneration prospects for many towns and cities in the UK, and will undermine hopes of imminent job creation in our part of the private sector.

Against this backdrop, we welcome the Government's decision to put forward a strategic direction for growth and are pleased to offer our industry's initial thoughts on the policies contained within.

Our submission focuses primarily on local growth and the business rates system (Box 3.C) as it is within this policy area that our industry has the most experience and expertise to offer.

For more on our response to the localism agenda as a whole, including the establishment of LEPs, please see our recent submissions to the CLG committee's inquiry and to the Secretary of States' letter regarding LEPs. Both are attached for your ease of reference.

As you will see from the attached, the retail property industry is fully supportive of the principle of localism. We support the Government's position that those closest to an area are best placed to determine what is best for it.

That said, our response does outline some challenges relating to this agenda which we believe must be addressed in order to ensure that regeneration projects are not undermined going forward. These are:

- A practical concern that our industry must now restructure its own internal systems to respond to new governance levels. This may take time, thus slowing development,

- and undermining our industry's ability to contribute to generating private sector employment growth
- Our industry's fear that an uneven playing field may be created with different authorities/local areas making specific, and unique, demands on potential developers. This could be costly for companies as they have to appropriately train employees to work to different local regimes
 - An observation that as local authorities are required to cut their costs, stripping services back to all but the core statutory provisions, departments such as planning may face significant budget controls. This may result in fewer officers and less money to train officers to effectively respond to the additional responsibilities that they are being given. This could cause delays to planning applications, thus stifling our industry's ability to provide private sector growth in certain areas

3. Response to questions

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

Retailers contributed around 25% of Government's annual £25 billion in business rate receipts in 2009/2010, and with the recent 2010 revaluation along local authorities power to raise addition rates revenue through a Business Rate Supplement (BRS), the cost of business rates to retailers is likely to increase. Escalating business rates at a time of falling sales driven by weak consumer confidence continues to have a detrimental impact on retailers' ability to remain profitable. This has resulted in large numbers of retailers going into administration and an increase in the amount of empty property on our high streets - as a result we have made representations to Ministers on next year's Uniform Business Rate (UBR) uplift and have argued that a lower rate than RPI should be applied given the fragile state of the economic recovery coupled with next year's tax rises and public spending cuts.

Against this backdrop, we fully welcomed the Government's proposal, as published earlier this year, to establish a broad new power allowing a local authority to grant relief to any ratepayer, subject to local eligibility criteria. We believe that this would help support town centres during the current difficult economic climate. We strongly believe that any relief should also be made available on empty property. This is an area where the localism agenda can enable communities to seize the initiative and act to protect local retailers and landlords and thus preserve their own high streets.

Turning to the specific proposal to empower some local authorities to retain their rates, we would welcome further explanation from Government on the exact workings of this. In principle it seems fair to the local authorities involved, but we would like to learn more as to how the areas that are currently net beneficiaries of the business rate redistribution mechanism would be adequately financed were the overall rates pool reduced. In addition it should be noted that previous Inquiries into local government finance, most recently the report undertaken by Sir Michael Lyons in 2007, occupiers strongly favoured the retention on a UBR. We see no reason why this position should have changed. A large number of business rate multipliers across jurisdictions results in administrative and systems costs that create costly business inefficiencies. In addition the uncertainty that might be created by councils having the power to set the business rate makes it more difficult of retail and retail property businesses to forward plan investment. The private sector needs Government support in establishing the most efficient regulatory and fiscal framework within which it operates to ultimately create business growth and all the subsequent economic and social benefits this brings.

Looking at the business rates system in more depth, we would be keen to work with Government to review the frequency of revaluations and the time between the antecedent date and the start of a revaluation period. As an example this year's revaluation was based rateable values as of April 2008 when rents were historically high and significantly higher than they were during the start of this revaluation period in April 2010. A period of two years between the antecedent date and the start of a revaluation period is, in our mind, unnecessarily long and can create the anomaly whereby actual rents do not reflect rates payable. In some current circumstances retailers' rates bills are significantly higher than the rent they are paying. Reducing the quinquennial review period to a shorter period, say three years, would have a similar effect in terms of removing some of the dramatic peaks that occur in rates payable as a result of strong rental growth over a five year period. We believe that any costs associated with more frequent revaluations would be offset by the savings made as a consequence of fewer appeals.

On a positive note, we do welcome the commitment that any local supplements on business rates will be subject to a binding business vote in order to ensure that business rate income is spent on activity that will have a material impact on private sector growth. This is a crucial, particularly given the context outlined above and Government's aspirations for future economic growth to be very much private sector led.

Finally, BCSC strongly believes that Government should take this opportunity, as part of the Local Government Resource Review, to revisit its approach to empty property taxation. Our industry has the capacity to create employment and regenerate towns and cities but remains handicapped by this financial burden that significantly adds to the risk of speculative development.

We appreciate that the detail of proposals will be set out over the coming months, and we look forward to responding to the full details in the Local Government Resource Review.

(2) How would such a model change your approach to Tax Increment Finance?

We believe that a business rates retention model and BIB should be seen as an entirely separate set of policy levers available to empower local authorities. TIF, BIB and business rate retention are not mutually exclusive (nor directly connected) proposals, and as such it should be possible for Government to enable local authorities to determine which of these tools is most suitable for stimulating growth in each local area.

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

We firmly believe that a specific TIF variant – known as **Local Tax Re-investment Programme** (LTRIP) - should be introduced urgently. Unlike other tax increment proposals, including ADZs, we believe that the introduction of LTRIP transfers risk to the private sector for upfront infrastructure investment without relying on public sector money and in our view does not require primary legislation given, as you will be aware, that the Local Government Act 2003 s70(4a) gave powers to Ministers to allow additional business rates, over and above those assumed in annual financial settlements and which would normally be retained by Government, to be returned to local government and allocated to principal authorities.

As indicated above the key point to note about LTRIP is that it does not require any initial borrowing by the local authority. Instead, the expenditure can be financed by the developer's own resources, and the developer is then repaid out of a tax increment, from increased business rates, as and when it arises. Thus the local authority can entirely transfer to the developer the construction risk and the risk that the tax increment will fall short of expectations.

There is every reason to assume that an LTRIP model will be attractive to private sector funders given the parallels with traditional development finance, which relies on payback from a developer from future rental flows whereas LTRIP would require payback from future tax receipts. Given future tax flows are safer than future rental flows (the latter being subject to void periods), there is every reason to believe that the private sector may more readily support LTRIP than traditional development finance tools.

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

As outlined above, the LTRIP model does not require any primary legislation. This means that the Government can act now to give local authorities the power to regenerate. Beyond this, we would be happy to work with Government on methods to ensure that local authority leaders and officers are fully able to make use of these new powers.