# Grow your own business rate income

26 October 2011 | **Ross Ingham**
1 comment
Tags: business rates | DCLG | Local government | Private and third sector | Regeneration.

**Current proposals to relocalise business rates will create a direct link between economic performance and additional revenue for local authorities. So how can they maximise the opportunities?**

All English local authorities have a latent but unrealised source of income if proposals for the relocalisation of business rates become a reality. With national retail vacancy rates creeping up to around 13 per cent, many town centres contain units that if occupied could generate business rate income for a local authority.

The same authority may also contain undeveloped and underperforming employment sites which are allocated for development that has remained unfulfilled. These larger sites have an even greater ability to generate income through business rates in the future.

In addition most areas will contain a multitude of smaller opportunities for businesses in space above shops, empty commercial premises and derelict buildings, all of which represent a potential future source of income.

DCLG's current proposals, which are expected to come into effect for the 2013/14 financial year, will create a direct link between the economic performance of an area and additional revenue that can be accrued by local authorities and re-invested into local projects and service delivery. Consultation documents indicate that, having set a baseline position during 2012, after levy deductions local authorities could benefit from a large proportion of every penny in the pound of additional business rate income generated in their areas.

With the abolition of the Regional Development Agencies and the limited resources available to Local Enterprise Partnerships, this new tool has the ability to incentivise and empower local authority-led economic development.

The approaches to calculating an authority's baseline position – for example, whether it pays a tariff or top up, whether it contributes to a safety net through a levy payment and the ultimate share it can retain of any new business rates generated – are complex and will not be finalised for some time. However, what is certain is that the new approach could become a powerful tool for generating funding at the local level as the economy begins to stabilise and eventually recover.

There are two issues that local authorities could be considering now in advance of the finalisation of the new mechanism.

Firstly, there is business rate income capacity: how much commercial floorspace or employment land within an area is vacant, undeveloped or underperforming? What is the medium-term trend for growth/decline in the local business base and therefore what level of income might an area generate under a 'business as usual' scenario? What level of business rate income could empty town centre floorspace generate? What employment sites could be intensified or developed relatively easily and what could they generate? These are important questions for local authority economic development officers and finance directors.

Secondly, there is business rate growth implementation planning: having identified potential future income from business rates, if an authority wants to unlock this potential, it is important to design a robust and realistic strategy so that when the new tool comes into effect it can optimise its performance from day one. Every authority is different and there are many different options available for different circumstances.

For example, could new tenants be encouraged into empty town centre properties by providing temporary rate discounts? And could these discounts be contingent upon occupiers demonstrating a meaningful contribution to local economic growth and environmental sustainability? This might breathe new life back into town centres by removing financial barriers for business start-ups, contribute to the local economy and generate funds that could be re-invested in town centres to sustain success

Or could an employment site be unlocked for development through a pump-priming investment secured against future business rate income (Tax Increment Finance) and how realistic is this approach in the current climate? Alternatively, could a rural authority establish a programme of rural micro-enterprise areas in smaller towns and villages to drive local economic growth at a very local level by introducing a range of mechanisms

within their new powers?

Or might an authority bring vacant or run-down buildings back into commercial use through a micro-grant programme that is more modest and therefore lower risk – funded on TIF principles or other standard approaches such as s106 or prudential borrowing? Or under the new planning regime could a proportion of floorspace be given over to other uses to cross-subsidise improvements to commercial space?

Assuming plans to relocalise business rates are eventually signed off, local authority economic development and finance teams have a window of opportunity to think creatively about how they can optimise this potential new source of income.

*Ross Ingham is director of* UrbanDelivery, *a regeneration consultancy*

## *One comment on Grow your own business rate income*

**peter rates** *says:*

You cannot grow rates income from empty shops and offices as the landlords are already paying empty shop rates. That is why there are so many charity shops opening as they are the only businesses exempt from rates. As a small shop owner, rates are now my second highest cost after rent and have increased by 120% in five years. I am now paying over £1,000 per month. This equates in quiet months to 90% of my income, therefore I am at times a 90% tax payer. Many of my neighboring shops have closed as a direct result of rates. The UK has amongst the highest rates in the world. They need to be cut and not seen as an extra revenue stream for councils.

27 October 2011 at 9:31 am