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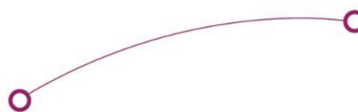
briefing



July 2011

Enterprise Zones, Business Rates and Tax Increment Financing (TIF)

The bidding round to fill the final 10 places in the selection of Enterprise Zones has recently closed with 29 bids being received. Successful bids, selected on their ability to deliver new jobs and a good return on investment, will benefit from simplified planning rules and a discount on business rates for 5 years. The business rates paid over 25 years will be retained locally and will be available for local investment with the relevant Local Enterprise Partnership having a role in how and where these funds are spent.

In addition, the Government has just published its consultation, from the Local Government Resource Review, on the local retention of business rates. This proposes two possible options for TIF and the ability to use business rate revenue to support borrowing for infrastructure investment seems set to become a reality.

Concerns from local authorities who fear losing out under the new system are to be allayed by proposals for "tariffs and top-ups" (payments into and from Government to create a fair starting point) and a "levy" (to be paid by authorities seeing "disproportionate gains" to be used to manage negative effects elsewhere).

What will be the role of TIF? Is it needed?

It is clear from the consultation that TIF is likely to have a part to play – but how significant a part will depend on the outcome of the consultation. Two options are proposed. At one level, TIF would be no more than part of the existing prudential borrowing system with no special treatment of business rate receipts in the TIF zone.
The second option, (which would supplement rather than replace the first), does propose different treatment with business rates in the TIF zone being left out of the calculation of any levy, tariff, top-up or system re-set. The Government would play a more direct role in this second option (including setting a limit on schemes) but the intention is to make these protected revenue streams sufficiently secure to encourage bank lending.

A technical paper giving more detail on these options is expected later in the summer, and this is likely to be an area of real interest to the property industry as well as local authorities. There has been such enthusiasm for TIF, but at one level, it may have no distinct role and would be seen simply as part of the existing prudential borrowing system.

On top of that, the Localism Bill will, when enacted, broaden out the discretion of local authorities to grant relief (or discount) on business rates.

So what about Enterprise Zones?

Given the focus on the bidding round, surely they are needed?

Well, yes and no. In many ways local authorities will be able to replicate EZ conditions in their own areas themselves. They can already make local development orders (LDOs) granting planning permission for certain development within given areas. That amendment on business rate relief/discount mentioned above will allow local authorities to grant business rate discounts in LDO areas and, if they can retain business rates in any event, this will include rates arising in the LDO area.

So does it matter if any particular bid wins in the national EZ competition or not?

Well, yes it does. For starters, the Government will be funding the business rate discounts in "formal" EZs - in an LDO area, the local authority in effect funds any discounts it allows. Most importantly, the EZs which secure their places this summer through the national competition must be assumed to stand the best chance of generating new growth - minimising displacement. So the business rates generated from them should be "extra" income. In an LDO area, we do not know how rigorous the process around predicting real growth will be, and it is possible that new growth would be more limited.

So we should hope that where any local authorities look to establish EZ conditions but in their own LDO areas, they do so after careful consideration of the issues around economic growth so as to make the most of the opportunities this package of powers will give.

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