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Re-localising the business rate

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Why re-localise?

We welcome the news that the Government is considering giving local authorities more control over business rates. The Centre for Cities argued for the full re-localisation of the business rate in our **Cities Manifesto** before the general election for the following reasons:

- The UK is one of the most highly centralised states in the developed world. Currently, the only source of local tax revenue is Council Tax. Local government raises 17 percent of its income from local taxation, compared to the OECD average of 55 percent.
- Giving local authorities more control of the business rate **provides them with a stronger incentive to support the right local conditions for economic and jobs growth** because councils themselves will reap more of the financial benefits. For example, this should make Councils more pro-growth in their approach to dealing with planning decisions. Businesses regularly identify delays in the planning system as a major barrier to their growth.
- More control over the way business rates are raised means more freedom over how funds are spent locally – with less reliance on centrally distributed grants, with strings attached.

Business rates raised £24 billion in 2009-10. £20bn of this applies to England. This is currently collected by the Treasury and distributed to local authorities on a needs based formula. Different arrangements apply in Wales and Scotland.

Full re-localisation of the business rate was in the Lib Dem manifesto and the Conservatives have been talking up the need for a radical devolution of power. **This business rates announcement comes on top of Nick Clegg commitment to introduce Tax Increment Financing.** It's good to see national government putting tangible powers on the table with the potential to deliver on the rhetoric around localism.

Overcoming the challenges ahead

Not everyone is in favour of giving local authorities more control over business rates. **Business groups will argue that giving local authorities more control over business rate will lead to an increase in the tax burden on business.** They also have legitimate concerns that – because business proprietors often do not live in the same local authority as their firm is taxed – if local authorities can alter the business rate it creates a situation of taxation without representation.

While these concerns will need to be addressed, we think:

- The private sector **should weigh up the business benefits** of local authorities being enabled to make the transport and other types of infrastructure investment that can really support economic growth in their areas.
- Local authorities are **unlikely to increase business rates far above the average for fear of discouraging inward investment** and undermining local business.

What about the business rate supplement?

Local authorities would also enjoy additional flexibility if they were able to vary the tax rate businesses faced – which currently can only be increased by 2p through the business rate supplement and this must be spent of a specific infrastructure investment. So far, only London has used this power – to fund Crossrail.

In *Control Shift* the Conservatives advocated providing similar downward flexibility, to allow local authorities to provide business rate discounts – either targeted at particular types of businesses or across the board. *Control Shift* also argued for introducing a business vote on any supplementary business rate proposal.

Making re-localising the business rate work

Transferring the business rate to local authorities won't necessarily allow local authorities to be more flexible financially, at least in the short term. Initially, it merely represents removing the Treasury middleman. Any distributional gains made by a local authority are likely to be offset by a reduction in another part of the grant settlement. The flexibility that will be realised in the future is where a council can increase the local revenue collected from business rates and see an uplift, with extra money that can be spent on additional local services, or alternatively decrease the rate to attract in businesses and jobs.

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