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Commercial breaks, by Chris Shepherd

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Local authorities have been given a range of new powers to encourage development, but a more business-like mind-set is needed to make them a success, **says Chris Shepherd**

Development has stagnated in all but the highest value areas. The private sector's appetite for risk has either gone or is priced at a level that makes development unfeasible.

So how will the local growth white paper facilitate development and regeneration?

The white paper shows how the organisational landscape will evolve from regionalism to localism. Regional Spatial Strategies have been abolished and the regional development agencies will be replaced in part by Local Enterprise Partnerships.

The overall theme is increasing the role of the private sector in economic development and moving away from grant funding. The European Regional Development Fund is already moving this way, for example, through the Joint European Support for Sustainable Investment in City Areas scheme. Ministers believe that venture capital and loan schemes are vital to economic development, growth and rebalancing.

The government has recognised the need for other tools and has made a Regional Growth Fund available. This will be an essential way to promote local growth, with £1.4bn split between four bidding rounds to April 2014. However, the £1.4bn four-year budget is comparable with the 2010/11 budget for the RDAs.

The RGF has two main objectives: to support projects with potential for economic growth and to support areas dependent on the public sector to make a transition to private sector-led growth. But the concern is that each round of bidding could be spread too thinly throughout the country.

In addition to this, the New Homes Bonus – where Whitehall matches the council tax raised for each new home for six years – will provide a total of £946m and will be the cornerstone of housing policy. However, a six-year income stream, while being useful, might not be long enough to support strategic planning.

It is the retention of business rates that is of most interest, particularly when a long-term view is taken. With the advent of the Business Increase Bonus and the ability of renewable and locally derived business rates to be retained locally, could this be the resource to encourage development?

The retention of local business rates and the imminent change in legislation allowing councils to borrow against future receipts enables the development of Tax Incremental Finance. Tif is a method of forward funding infrastructure to encourage economic development in an area that is displaying signs of 'blight', or that requires significant infrastructure. Investment is facilitated by the public sector, which then ring-fences the anticipated uplift in tax revenues to cover initial costs.

But is Tif the ultimate enabling tool that many seem to think? It can work, but ministers should be mindful of a number of issues and risks.

First, how does a local authority fund the time lag between the financing of infrastructure and the arrival of the business rate funding? On all but very small developments, this could be over three years. Under current legislation this gap would be funded by local council tax payers.

Secondly, does the local authority really understand the risks of Tif? Obstacles include how to ensure that development partners are legally bound to bring forward timely development, or face financial consequences. And what carrot can be offered to encourage development on the 'less attractive' sites?

Another important question is whether Tif will be restricted to business rates, currently the preferred option. If so, will the regeneration of a commercial area provide the additional housing that is in such demand? Reducing these restrictions would de-risk and broaden the usefulness of Tif as a tool.

So the white paper offers the public sector a cocktail of tools to enable growth, development and regeneration to take place. It is only through a blended mix of these approaches that substantial development can proceed.

However, reading between the lines, the white paper also expects the public sector to be a more commercial beast. The public sector should intervene where necessary, but it should not be seen as a soft touch when doing so.

This commercial mind-set and the recognition of the real risks involved will help the public sector be successful in leading, participating and sharing in the benefits and rewards of growth at a local level.

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