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Passing the buck without the bucks: Some reflections on fiscal decentralisation and the Business Rate Retention Scheme in England

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Abstract

In an era of continuing Local Government austerity and enhanced urban financialisation, Local Government in England is increasingly reliant upon decentralised methods of urban finance (typically based on 'new economic growth' extracted from non-residential property development) to fund public services, economic development and urban regeneration.

Opportunities for greater territorial governance and economic development often frame fiscal decentralisation, yet, critical appraisals of this agenda are less common. Reflecting upon this issue, this paper critically appraises the underlying method of 'localist' finance in England, the Business Rate Retention Scheme (BRRS). In doing so, it describes a picture of geographical variegation in England, one that suggests that the BRRS could lead to splintered urban development, based on the necessity (and underlying viability) for new development. The paper concludes that a minority of 'premium locations,' characterised by buoyant property market characteristics, could outperform more numerous 'stranded' and 'redundant locations.' The result is that those areas most in need of investment, that exhibit some kind of market failure and geographical disadvantage, could be less able to generate new development in order to fund the BRRS. Under these conditions, rather than correcting incidences of spatial inequality, fiscal decentralisation could further polarise uneven development.

Keywords

Financialisation, fiscal decentralisation, public services, business rate retention, urban regeneration, economic development, spatial inequality.

Introduction and theoretical argument

The current hyperbole associated with devolution in England would have us believe that enhanced territorial governance and localism is bound up with, and dependant on, fiscal decentralisation. This paper scrutinizes this assumption and suggests that this argument is scarcely borne out when distilled against the variegated economic geography in England. Presently, fiscal decentralisation is a popular concern for those involved in the co-ordination and development of urban resources in towns, cities and regions (Martin et al., 2015). Several interconnected intellectual perspectives and normative orientations influence this agenda. It can be associated with the international trend towards decentralised government provision (Rodriguez-Pose and Gill, 2003), 'roll back' and 'roll out' neo-liberalism (Peck and Tickell, 2002; Peck, 2010) and urban financialisation and infrastructure provision (Pike and Pollard, 2010; Christopherson et al., 2013). In England, it can be viewed as a result of the drive towards austerity since 2010 (MacKinnon, 2015) and the argument for enhanced territorial powers characterised by growth based market reforms (Clifford and Morphet, 2015; Goodwin et al, 2012., Cox, 2009; Brenner, 2003). In recent years this agenda has been championed and actively promoted in England by various special interest groups such as the London Finance Group (2013), the City Growth Commission (2014) Republica (2015) and perhaps most prominently the Core Cities Group (2015) and their Modern Charter for Local Freedom.ⁱ

However, the speed with which fiscal decentralisation (and its associated tools of urban finance) is taking place, makes it imperative to understand its implications for the funding of welfare provision, economic development and urban regeneration. So far devolution, especially of financial powers, has largely been received as an untrammelled good in England and has received little critical attention, (Strickland, 2013, is a notable exception in this area, scrutinizing urban financialisation). In comparison, localist methods of urban finance have received more critical reflection in international literature. During the last

decade, Weber (2010) has made significant inroads into the Tax Increment Finance agenda in North America, Aalbers (2012) has investigated the international mortgage securitisation market, while Gotham (2009, 2014) has appraised the sub-prime mortgage fallout and disaster relief funding.

In comparison, the cursory perspective in England fails to critically explore what lies beneath this potential 'Trojan Horse'. Presciently, Healey (2013) warns that promoting new urban policy without first giving attention to its potential impacts, before and after implementation, may do more harm than good. In concurrence, the contention in this paper is that the continuing decentralisation of funding and the responsibility for its governance to Local Government, raises profound questions for the way towns, cities and regions are produced and governed in England. Certainly, there are open questions in relation to how exogenous urban finance policies and practices become 'localized,' and what they mean for the coordination of local public services, economic development, urban regeneration and more broadly, the quality of life of those people living in different locations.

This paper tackles this deficit by appraising and interpreting the retained business rate retention scheme (BRRS) which has replaced the traditional Local Government Formula Grant funding mechanism in Englandⁱⁱ. In doing so the intention of this English case study is to engage existing, and develop new theoretical interpretations about how real estate interests, financial products and Local Government techniques interact and coalesce in different locations. Hitherto, very few studies have appraised an entire country, instead relying upon few or distinct city case studies. The relative size of England, compared to large countries, affords this opportunity.

In order to reflect upon this issue this paper traces the historical tradition of Local Government finance in England, its ongoing synergism with commercial real estate, it's financial 'worth' and the policy argument for decentralisation. It then unpacks the BRRS

model, outlining some of its inherent complexities and practical implications (focusing in on the 'stripping out' procedure), before outlining a broad typology of locations that describe how fiscal decentralisation, construed through the BRRS, could impact local governance and spatial development. A central argument introduced in this section is that the success or failure of the BRRS is bound up with the economics of commercial real estate development. Thereupon, the paper centres these reflections in the international urban financialisation literature in order to contemplate the potential implications for England. Inspired by this reflection, this paper offers an alternative reading of fiscal decentralisation in England. It argues that the co-dependent narratives of 'growth' and 'localism' in the BRRS are being mobilised to justify the switching, re-territorialisation and reinvigoration of capital in privileged areas of the contemporary built environment. The paper then concludes with a call for a research focus into fiscal decentralisation and new methods of Local Government finance, in particular its oversight and distributive tendencies.

The genealogy of Local Government finance: The business of tax

Unquestionably, Local Government in England has gone through a process of fundamental reform. Since 2010 the veil of austerity, deficit reduction and localism has been used to radically reduce the size and influence of Local Government. However, it is also true that Local Government is still fundamentally important to urban innovation as it continues to mediate urban development through regulation and new financial instruments (Mazzucato, 2013). In England, fiscal decentralisation is congested and difficult to navigate with numerous tools and models available for deployment, something that Pugalis and Bentley (2013) have described as an 'entrepreneurial climate of chaos.' Sitting alongside the traditional prudential borrowing powers of Local Government and the public works loan

board (PWLB), there is the Community Infrastructure Levy (CIL), the EU backed JESSICA and Chrysalis funds administered by HCA, the Regional Growth Fund (RGF), the Growing Places Fund (GPF) and the Local Growth Fund (LGF). There are small scale Business Improvement Districts (BIDS), larger scale Enterprise Zones (EZ), generalised Tax Increment Financing (TIF)ⁱⁱⁱ and the more powerful New Development Deals seen in Newcastle, Nottingham and Sheffield^{iv}. More exotic yet is the Greater Manchester 'earn back' model and the newly inaugurated Municipal Bond Agency^v. The intention is for all of these models to sit within the BRRS (or be carved out by special legislative decree^{vi}).

Rachel Weber (2010) best captures the international focus on urban finance and local governance when she appraises and critiques tax increment financing and the purchasing and selling of urban debt within international financial markets in North America. However, through the BRRS, Central Government in England has pursued a different path. Rather than the spatially located ring fenced TIF model in North America, the BRRS is based upon a defined rate of return, part of which is retained locally, and part of which is sent back to Central Government for reapportionment. As a result, the urban finance methods that Weber (2010) describes are relatively rare in England, restricted to New Development Deal areas and to a certain degree, the earn back model in Manchester. However, proceeding sections will demonstrate that the English BRRS is very different to the TIF arrangements in North America. This is because the intention behind TIF's is to favour areas that are disadvantaged, to narrow uneven development by giving blighted areas a leg up. In contrast, the underlying mechanism of BRSS benefits those areas already advantaged.

Illustrating the venerable age of urban financilisation, the genealogy of BRRS, and its underlying method of taxation based on property, can be traced back in history to the 1660 Poor Law and the collection of the 'poor rate' from property owners. The present system of property tax, business rates, is a national tax which is administered locally between local

authorities and the national valuation office (VOA). It replaced the previous 'general rate' system in 1990, which was a locally set rate of tax based on rental value applied to all domestic and non domestic property. In England there are 326 local billing authorities responsible for collecting business rate tax from nearly 1.8 million hereditaments^{vii} (typically shops, offices, warehouses and factories). Illustrating the magnitude of the business rate system, Table 1 describes the rateable value^{viii} and total number of hereditaments for each commercial property class in England based on 2012 data.

Table 1 Rateable value and the number of properties by bulk class category

Category	Number of properties (thousands)	Rateable value (Millions)
Retail	528	16,666
Office	341	13,799
Industrial	425	11,279
Other	136	2,678
Excluded	324	12,291
Total	1,754	56,713
Sources: http://www.voa.gov.uk/corporate/statisticalRelease 2012		

Currently, councils in England collect some £22.4bn of business rates each year (DCLG, 2014). Business rates are calculated in relation to the rateable value using the standard national business rate multiplier which currently stands at 48.2p in 2014/15 (47.1 for small businesses). This means that if a property has a rateable value of £100,000 it would have a £48,200 property tax bill. The business rate multiplier is adjusted each year according to the Retail Price Index (RPI). It is also adjusted during the periodic national revaluation

exercise to make sure that overall national property tax yield remains constant before and after national revaluation. Under the former grant system of funding, no sooner had this income been generated at the local authority level than it was sent to the Central Government Treasury, and then redistributed back down to individual local authorities.

The argument for fiscal devolution

The English Local Government finance system is one of the most centralised in the world. The Organisation for Economic Co-operation and Development (OECD, 2010) calculated that local authorities in the USA, Spain, France, Germany, Spain and Japan all have greater control over local budgets than do their counterparts in England. According to the DCLG (2011) traditional methods of financial redistribution (most notably the Formula Grant methodology) denied local authorities control over locally raised income. They also deprived local authorities of the certainty needed to plan investment over the long term. In response, DCLG (2011:4) stated that,

'This Government is determined to repatriate business rates. No more should proud cities be forced to come to national government with a begging bowl'

DCLG (2011) argued that if local authorities are to fulfil their role as autonomous, effective agents of change, then new directives such as the General Power of Competence in the Localism Bill must be balanced with enhanced financial control. This isn't necessarily a new proposition, in recent decades several Government reviews, including the Layfield Committee in 1976, the Balance of Funding Review in 2004, the Lyons Inquiry in 2007, and more recently the Heseltine No Stone Unturned report in 2013 and the Adonis Mending the

Fractured State report in 2014, have all linked local control of finance to enhanced local democracy. This was solidified in a raft of Coalition Government documents which included the Localism Bill (2010), Open Public Services (2011), and the Local Government Resource Review (2011:9) which claimed that decentralisation will,

'Give power, money and knowledge to those best placed to find the right local solutions; and improve the relationship between government and those being governed.'

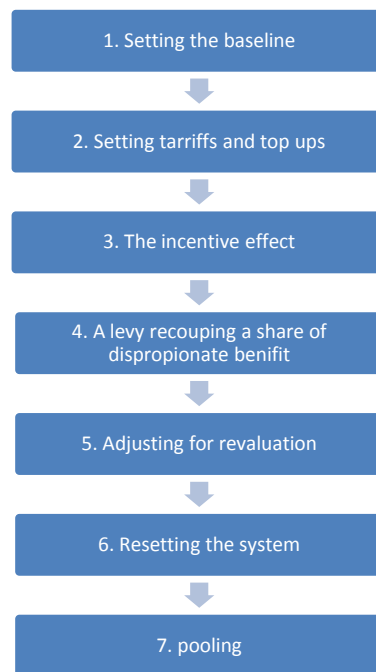
The Coalition Government argued that under Formula Grant, local authorities could suffer a fiscal disincentive when it came to promoting economic growth. This is because the costs of local development, for instance disruption during construction, the provision of services, congestion and opposition from local communities, can all result in net costs that are not always recouped (DCLG, 2012b). Tellingly, research by Cheshire et al. (2008) and the Centre for Cities (2011) suggest that decentralised business rate models will help roll back decades of land supply restrictions. Both studies claim that nationalisation of business rates after 1990 resulted in planning restrictions and therefore less development. The rationale in both documents is that decentralising these same powers will result in reinvigorated development. Easing this situation, the consultation document for the BRSS (DCLG, 2011:12) concluded that,

'Developers will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development in order to go for growth.'

The Business Rate Retention Scheme (BRRS)

The Coalition Government attest that the BRRS reverses the regressive tendencies of the previous Formula Grant funding model, fulfilling two primary policy aims, 'localism' and the pursuit of 'economic growth.' Figure 2 describes the seven stage process at the heart of the BRRS model in England.

Figure 2 **The Business Rate Retention Model in England**



Source: Adapted from DCLG, 2012a

The first stage in 2013/14 was to set a baseline for each local authority. Then in order to achieve a 'fair' starting point, Central Government calculated a tariff or top up amount for each local authority (stage 2). Those authorities with business rates in excess of their baseline level of funding are asked to pay a tariff to Central Government, those authorities with business rates yield below their baseline would receive a top up grant from Central Government (top ups and tariffs are adjusted in proceeding years against RPI). This means a division into tariff and top up authorities in order to recognise that some local authorities will

receive more business rate income than they did under the previous Formula Grant system while others will receive considerably less. In future years (stage 3) local authorities would keep a significant proportion of any growth in business rates above the initial baseline. If business rates decreased or did not grow as much in future years, they would see revenue fall. If some local authorities experience disproportionate growth, i.e. those with high business rate tax bases, a levy (stage 4) is imposed to recoup a share of this growth in order to redistribute to those authorities that see significant reductions in business rate income or to fund regeneration schemes in high growth areas (such as New Development Deal areas). Every five years (stage 5) the model is adjusted to take into account movements in the business rate yield resulting from periodic national valuation assessments. Then, every 10 years (stage 6) the model is reset (the next is due in 2020) to evaluate and ensure that resources meet the needs of service pressures sufficiently and that the gap between growth and disadvantaged areas is not too great. The final stage, pooling (stage 7) gives local authorities the opportunity to pool their resources with neighbouring authorities^{ix}.

The model is clearly complex (perhaps its main weakness), however for the purpose of this paper attention is paid to stage 3, the incentive effect and stage 5, adjusting for revaluation. The incentive effect means that local authorities in England are encouraged to increase the size of their business rate base in order to create revenue to pay for local service provision, economic development and urban regeneration. The retained business rate model has given all local authorities in England the powers and responsibility to retain a proportion of accrued business rate taxation and any growth thereupon (up to 50% in the current formulation) (DCLG, 2014). This allows local decision makers the opportunity and incentive to expand local taxation by competing with other areas in England for occupier demand in a form of urban entrepreneurialism and inter urban competition (Schipper, 2014). DCLG (2011:4) explained that,

'Any council that grows its local economy will be better off under the new system. This will create the right incentives for them to work closely with local businesses, helping to create the conditions for growth, and giving local leaders reasons to celebrate their successes, not conceal them.'

However, the adjustment for revaluation that takes place every five years strips out any increase in urban growth (through the adjustments in the top up and tariff mechanism), the only growth that remains is that associated with net new floor space, either derived from new build construction or repurposed floor space. The critical point therefore, is that the relative increase in rental values of existing properties cannot be capitalised^x.

Extracting value through urban development

The 'stripping out' procedure happens for two inter-related reasons,

1. The nature of the property rating system in England
2. Consequent policy choice

Reflecting on the first reason, aggregate property tax yield at the national level has been fixed across revaluations since 1990. If aggregate property tax yield doubles (reflecting economic growth) then the national business rate multiplier is halved, leaving Central Government with the same rate income as before revaluation. However, this method is skewed because of the incredible growth seen in the most powerful property markets, typically in central London, which leads to perverse consequences. For instance, it is entirely possible for local authority areas to experience increase in rateable value but reduction in rate

yield. This happens because growth in such areas is less than the national average (at the last revaluation over 200 local authorities saw a decrease in yield); only those authorities who see yield growth above the national average would receive any benefit. The national average is artificially high because of the gravitational influence of London property prices which traditionally drives the scale of the multiplier change and results in a kind of geographical yield asymmetry. To illustrate this effect, Westminster Council, a consequence of its property portfolio value, raises 6% of the overall national total, more than Newcastle, Manchester, Liverpool and Birmingham combined (ODPM, 2004).

This leads to the second reason, the consequent 'policy change.' In an ideal world, local authority rateable value would be fully reflected in its property tax yield but it is difficult to justify this when property tax yield is subject to the perversities of national calculation and the gravitational pull of the London property market. Areas, which traditionally see rateable value increase but yield decrease, would be at a distinct disadvantage, especially when local authorities are dependent on their income to fund local services. Hence, in order to counter property tax yield volatility, the policy decision is to alter the top up and tariffs mechanism in the BRRS following national revaluation. This is to make sure that all local authorities are in the same position either side of revaluation.

To summarise, there are traditionally two methods of extracting value from the built environment in order to generate 'growth' (new money) in urban finance. The first involves building new properties in order to create 'new' business rate yield. The second involves investment in current property stock and its surrounding area in order to increase its inherent value. In England, in the majority of circumstances, the latter method, is unrewarded, quite literally devaluing the exiting built environment. Furthermore, the minority of areas that can attract and are conducive to new development, those with buoyant rental market structures, have a distinct advantage over the majority of areas that cannot. Indeed, a central argument in

this paper is that the BRRS is not really predicated upon the ability to engender economic growth, rather, it is founded upon the ability to create new floor space through new build construction or floor space conversion.

Decanting fiscal decentralisation

The need to generate growth through business rate portfolio expansion, could result in uneven development (Harvey, 2006, 2010). This is because reliance on the development of new floor space effectively 'games' the BRRS in favour of those areas that have buoyant rental markets. This creates a situation where the BRRS is based upon the spatial economics of property development, rather than the creation of economic growth. Under this formalisation, what is built and where it is built, is driven by relative rental structure, yield and the perceptions and motivations of various property development and investment interests (Bryson, 1997). Locations with vibrant economies and demonstrable demand for property are likely to attract a different type of property developer and investor than unprofitable development locations. This underlines the perennial argument of Pryke (1994), that property development is central to all geographic understandings of the city. The following section begins to describe this uneven geography by developing a broad typology of locations in England, namely 'premium locations', 'stranded locations', and 'redundant locations.'

The typology is inspired by Weber's (2010:252) reflection that,

'A generalised pressure to attract capital does not mean that Local Governments have been equally financialised across space.'

The formulation of the outline typology is based upon the potential ability of local authorities to capitalise their urban assets into the BRRS model of urban finance. In doing so, it reflects upon the contention of Leyson and Thrift (2007) and Weber (2010), that the ability to create and monetise new urban asset classes is an underlying feature of contemporary public sector service delivery. The underlying geographical unit of analysis in this typology is the local authority administrative area, chosen because this is the primary basis for the BRRS. However, the typology could just as easily be applied to functional economic areas at the sub region and regional level.

Premium Locations

Premium locations are most adept at exploiting and actualising the twin BRRS policy objectives of 'localism' and 'growth.' Capitalising on buoyant property market characteristics, such locations are relatively autonomous because they are able to leverage the more or less guaranteed ability to promote new floor space creation. Investment yields in these locations create attractive propositions for global property investors who view property as a long term investment medium. This gives premium locations an automatic advantage over other areas because it is these institutional investors and global investment capital, that determine, when, where and how commercial floor space is developed (Bryson, 1997). Perhaps these locations are the ones that have the right to truly call themselves 'entrepreneurial,' as growth coalitions, including the public sector, developers, financiers and their respective intermediaries determine, shape and reshape urban development. These locations have the inherent ability to exploit and strategise their real estate development, creating and securitizing growth, and in turn, linking into international circuits of capital and financilisation. This is because commercial real estate in such locations is more liquid and fungible and can be repackaged

into alternative financialised products and traded on the capital markets. These locations are able to exploit the mechanisms through which place based assets are increasingly transformed into financial products in the global market place (Aalbers, 2008; Gotham, 2006, 2009; Newman 2009).

These locations have most in common with the North American system of debt finance and international bond markets. Echoing the work of Weber (2010) and Molotch (1976), such locations debunk the myth that public service delivery and urban development is solely a local activity, rather it is a nexus of international financial products, local property market interests and mediating Government practices at the local and national scale. In England, these locations are typically few, a consequence of their relative size, and include the central London boroughs, the 'core cities' of Birmingham, Bristol, Nottingham, Sheffield, Manchester, Liverpool and Newcastle (and their cousins over the border Edinburgh and Glasgow) and increasingly the 'Metros' (which also include Reading, Oxford and Cambridge) described recently by the Local Growth Commission (2014). On top of their ability to exploit the BRRS, it is no coincidence that these locations are pushing for increased fiscal decentralisation to further cement their premium position. Greater Manchester has been awarded the opportunity to trial 100% rate retention under the BRRS as the 50% model is not considered sufficient to exploit the full growth potential of this 'Northern Powerhouse.' In addition, Newcastle, Nottingham and Sheffield have New Development Deal Area status which allows them to also keep 100% of business rates expansion in specified geographical areas. Indeed, the Chancellor of the Exchequer announced in the run up to the 2015 general election that,

'Where cities grow their economies through local initiatives, let me be clear: we will support and reward them.'

Stranded Locations

Stranded locations have relatively buoyant business rate portfolios in terms of quantity but find it difficult to utilise the BRRS growth incentive. The current formulation of the BRRS, particularly the 'stripping out procedure,' hinders these locations from achieving their full economic potential. This can be because of the historical nature of the built environment, restrictions in the availability of space to build new properties, or more simply, a general satisfaction with the current composition of commercial real estate in such locations. Local authorities like Westminster Council, the holder of one of the most valuable business rate portfolios in England (see section 2), argues that its hands are tied because it cannot maximise the income from all of its property assets for growth (a consequence of restrained expansion space and the lack of appetite for redevelopment or conversion). Westminster should not see any decline in tax relative to their baseline funding level (dependent on the accuracy of the baseline assessment) however they will not be able to manage their existing assets in order to generate any new growth because of the primacy given to new floor space construction. Historical towns and cities with a dearth of high value listed properties, such as Liverpool, Durham, York and Bath could find themselves in a similar situation. This could also apply to historical parts of the Oxford and Cambridge 'metro' areas, chosen for growth by the Local Growth Commission but potentially prevented from doing so by one of its associated policies. In such locations it is not practical to demolish or re-purpose these buildings when they are perfectly viable in their current state, nor is it sensible to build more property as this may lead to displacement. This indicates that the BRRS isn't just predicated on the ability to build buildings, it is also path dependant, constrained by what has been built previously.

A prescient report by Wilcox (2012) for the Centre for Cities, noticed that those areas reliant on their existing property stock for income generation and 'growth' were at a distinct disadvantage under BRRS. Stranded locations fully embrace the contemporary agendas of growth and competition, but cannot mobilise the growth potential in their commercial building stock in order to pursue this end. Furthermore, the inability to create growth (which is then securitized to fund new infrastructure) in stranded locations, due to the stripping out procedure, could lead to infrastructure deficits and funding shortfalls in the future as the need for infrastructure investment becomes increasingly acute. In contrast, under the widely utilised ring fenced TIF arrangements in North America, it is possible to invest in local infrastructure through the urban environment. In these locations, new roads, bridges, ICT infrastructure and the removal of poorly performing buildings create local property value uplift. This enables recouping of development costs through value capture mechanisms. However, in England, similar arrangements like New Development Deals, are only located in premium locations which imbue demonstrable growth potential. This presents a circular risk, stranded locations are obstructed from generating growth and consequently cannot fund the infrastructure needs of tomorrow.

Redundant Locations

Redundant locations are disadvantaged because of their inferior property market characteristics, such locations have either marginal or negative development values^{xi} and cannot generate high enough rental levels to justify the costs of new development. Concurrently, these locations may also be shrinking due to economic change and demographic adjustment. Redundant locations are typically associated with older, secondary property markets which exhibit depressed rental levels and low levels of occupier demand.

Institutional investors will not provide finance for development in these locations because they are unprofitable and do not conform to the conventions of the global institutional investment market. Consequently, redundant locations are dislocated from urban financialisation because they cannot access the principle means of financing commercial floor space. In such locations, development projects frequently fail viability testing because there isn't any demand for new property which makes pre-lets and speculative development impossible to achieve. Consequently, vacant sites and obsolete or derelict buildings, rather than net new floor space, could be a regular occurrence in such locations.

While stranded locations may still have a degree of autonomy and relative stability, due to the overall size of their business rate portfolios, redundant locations could fall further behind the rest of England. It is problematic for these locations to exploit the BRRS as they don't have the underlying growth potential or critical business rate mass to pay for public services, nor do they have the lobbying power to justify the more exotic finance tools seen in premium locations. Consistent with the theory of Stiglitz (2015) that economic inequality, results in political inequality, these locations do not have local autonomy and are dependent on the built in compensation instruments in the BRRS (the top and tariff and safety net stabilisers). These compensation instruments are paid to any council who can demonstrate a fall in business rates receipts by more than 7.5% relative to their baseline funding level each year. Further exacerbating this situation, any resets to the BRRS system, designed to realign the system with urban need, only take place every 10 years.

Rehearsing an argument of Bryson (1997), as access to Government grant aid recedes, redundant locations will be increasingly reliant on the rental structures of their local property markets to create adequate return for development capital. However, it is difficult to conceive a set of circumstances where this can take place without some kind of incentive mechanism, consequently, it will be very difficult to justify public services that are not

financially productive (as per the argument of Leyshon and Thrift 2007). Several areas stand out as being threatened under this regime in England, but those at particular risk are those areas that have suffered from long term economic decline and shrinkage, often exacerbated by the recent recession. These locations are typically situated in the North, such as Teesside, Humberside, Grimsby, Scunthorpe, Bury, Oldham, Crewe and the Black Country, indicating that it is often the small towns and cities that suffer urban decline rather than the big cities (The Economist, 2013).

These locations exhibit an inherited built environment characterised by obsolete and redundant land and buildings, a consequence of their previous economic function. The traditional approach to ameliorate this situation would be to pursue comprehensive and sustained regeneration strategies that increased the overall vitality and value of an area, primarily through gap funding the economic shortfall in physical development projects. At the same time, initiatives like the Neighbourhood Initiative Fund (later the Neighbourhoods Fund), were specifically designed to address issues of inequality in the poorest areas. This helped redundant locations to boost physical, economic and social renewal in order to adjust to new futures. In the main, these facilities no longer exist, and under the rubric of the localism agenda, local authorities are largely expected to come up with their own regeneration solutions to economic decline, while Central Government plays a strategic and supporting role. It is in these locations where the challenge and contradiction of the neo-liberal agenda is most acute.

Splintered urban finance

The opportunity for decentralised financial powers has been welcomed by some civic leaders in the UK (most notably those in the Core Cities) as an opportunity for territorial freedom,

governance and power. What these city leaders want is power, and the 'roll back' of centuries of centralised government, echoing the level of autonomy seen in the rest of Europe and North America. Indeed, fiscal decentralisation could continue, Shaw and Mackinnon (2011) argue that institutional structures and relations unfold over time, typically this proceeds in the direction of more devolution where continued frustration with existing arrangements leads to more change (Giordano and Roller, 2004).

Combined with the effects of recession, economic restructuring and the radical alteration of welfare policy, findings suggest that local growth policies, based on commercial property development, could drive spatial inequality and uneven development, rather than reduce its manifestation. It is conceivable that this could result in a kind of financialised apartheid, where a minority of urban locations outperform the rest of the country. In 2000 Simon and Marvin used the analogy of the underlying circuits of technology and communication to describe the fragmentation and splintering of urban geography. Similarly, there is potential for a new and highly polarised urban land landscape to emerge where premium property market characteristics (the presence of economic demand, a large tax base, buoyant rental levels, the ability to capture property value uplift and expansion space for new development) selectively underwrite favoured places and inhabitants. Reminiscent of Castell's (2005) redundant user theory, premium locations could outperform and effectively bypass stranded and redundant locations through a process of financial selection based on the contingent nature of local property market conditions.

Continuing the work of Aalbers, 2011; Fields, 2013 and Gotham, 2014, who illustrate a relationship between urban financialisation and inequality. Findings suggest that the BRRS could be a zero sum method of urban finance where the financial benefits in certain locations are counterbalanced and potentially outweighed by uneven development elsewhere. This highlights a potential conflict between social need and the new institutional form of urban

governance exhibited in the BRRS. This is because the production of commercial floor space is unpredictable and rests upon the turbulent foundations of profitability, relative property market structure and the presence of occupier demand. The BRRS fails to recognise that the economics of construction are different in marginal development locations.

Furthermore, without careful consideration, the trend toward growth underwritten by new floor space construction in premium locations could lead to a period of overbuilding. The buoyant property market characteristics in premium locations and the net new floor space foundation of the BRRS creates the potential opportunity for a building boom (and a kind of growth first super fast urban neo-liberalism) where real estate development, financial markets and urban planners operate in overdrive to build new income generating structures in order to expand the business rate tax base and create profit (Weber, 2010). Similar findings have previously been found in relation to Enterprise Zones in England (Greenhalgh, 2003) and in relation to Tax Increment Financing in North America (Weber, 2010). In both situations, increased property development took place without an associated increase in the quantum of occupier demand. A process of filtering and displacement of existing property occupiers into new buildings in a flight to quality followed, the typical consequence in both situations was high levels of vacancy in older buildings.

Both of these works proved that all locations can't be better off if they adopt the same market led policies of entrepreneurialism and new build development because the contingent quantum of occupier demand and its associated jobs and investment is finite. The justification for new property development in these situations was linked to the mobilisation of blight and obsolescence narratives (Smith, 1996; Weber, 2010) and simultaneous zoning decisions which justify the continual creative destruction of urban capital as it seeks to re-territorialize and maintain profit. However, we contend that in England, there isn't any need for this process as the BRRS actively excludes the existing built environment from the onset

in the name of localism, growth and the vagaries of the centrally administered property tax model. This policy mechanism creates a situation where the built environment is even more responsive to the investment needs of commercial real estate capital in certain privileged locations, increasing the turn over time and releasing the inertia of fixed capital trapped in the existing bricks and bones of buildings (Bryson, 1997; Weber, 2002). This can be linked to Smith's (1984) 'see saw' theory of uneven development where he argued that the geographical mobility of surplus value and uneven development are necessary parts of capitalism and that this process can explain the creative destruction and gentrification of urban neighbourhoods, as mobile capital exploits the conditions of growth while minimising its exposure to depreciation.

Urban implications

Under the BRRS, welfare provision and the necessity for value creation has been blurred; the implications for certain English towns and cities could be profound. The focus on property market and business rate growth is not appropriate for all locations, especially those that do not possess the necessary property market conditions for this kind of finance model. Traditionally, regeneration policies and strategies have tried to ameliorate economic and social issues in selected communities, typically found in redundant locations, however, the reorientation of urban funding toward speculation demonstrates the pursuit of very different objectives. These objectives are associated with neo-liberalism, the emergence of New Economic Geography (NEG), New Urban Economics (NUE) and the pursuit of economic agglomeration (City Growth Commission 2014) which can trace its lineage back to the late 1980's and the support of the market process in the most, not least favourable locations (Boyle, 1988). This results in 'picking winners' in areas of opportunity, under this process,

premium locations become the focus of urban policy at the expense of stranded and redundant locations in the peripheral estate (Boyle, 1988).

Hence, the evolution of urban finance in England should not only be associated with devolution, increased autonomy, exotic financial instruments and capital markets. It is a state driven enterprise, where normalised urban finance models unbundle and land in ways that fragment urban geography around a minority of urban winners. The BRRS in England demonstrates that fiscal decentralisation segregates as much as it connects and it does so selectively based on contingent commercial property market conditions. This heralds a profound change in the traditional objectives of urban regeneration policy. Issues of unemployment, social distress and disadvantage could give way to return on investment, rental yield, value capture and leverage ratios. In this interpretation, urban regeneration has gone through a process of re-appropriation where it is expected to create profit in order to fund public services. Indeed, it is quite conceivable that we could be moving from an era of urban regeneration to one of urban capitalisation. Furthermore, under the present Government regime there is something phony about regeneration in areas of social and market failure, the very sense of failure is directly opposed to the Government's focus on growth. Consequently, there is an implicit risk that urban finance built around a selection of premium locations could disguise the withdrawal of all but the most basic welfare support mechanisms in those areas that need it most.

Therefore, the contention that fiscal decentralisation provides a basis for autonomous decision making and urban control should be viewed critically, as this does not appear to be the case for all locations. As practitioners and scholars we must be aware of the assumptions quite literally built into the ideas, techniques and organizational structures of the unashamedly neo-liberal BRRS. In many ways, the BRRS has led to a redefinition of what good public policy is. Traditionally public policy has been associated with a net increase in

welfare for the public, now it is associated with how effective the Government has been in creating growth. There appears to be a risk in the BRRS, that in certain locations the state will promote new urban development through a kind of unwarranted Schumpeterian (1950) creative destruction, where new build development, and potential building booms, take place without any consideration of, and for, urban demand. New properties could be created not because there is any demonstrable need for them, rather, because they are an efficient means of revitalising capital and are the only expedient means of funding the future of public services. This puts local authorities in an invidious position, on one hand they are held liable for maintaining the appropriate mix and supply of employment land and premises, on the other hand they must create new commercial floor space in order to fund their own future.

Conclusion

It is too soon to pass judgement on whether the BRRS signals an unfettered neo-liberal Government funding project or the production of a new synergy between the public sector, the property market and economic development (Adams and Tiesdell, 2010). Yet, as far back as 1976, Harvey Molotch published the 'City as Growth Machine,' in which he suggested that the production of real estate was integral to the production and understanding of cities. Indeed, initial findings suggest that there are potentially significant asymmetries and internal divisions between wealthy premium locations and those locations which are not, and therefore cannot, take part in fiscal decentralisation. In an example of 'roll back' and roll out' neo-liberalism the BRRS has prepared the ground and reconciled the political imperative to build with the capitalist demand for liquidity in premium locations. However, elsewhere in England, it has also potentially created a broader conflict between the generation and sharing

of wealth. Therefore, there is no point edifying readers with an untrammelled happy ending, rather, the reality of fiscal decentralisation seems set for a divergent future.

How then to improve understanding in relation to this situation? This is a big question, one far beyond the scope of this paper. Indeed, the initial reflections in this paper are based on a series of predictions in relation to how local authorities may react and how property markets will operate under the BRRS. As such, there is the need for some cautionary words. The approach to appraise all of England has resulted in broad review rather than detailed analysis. Therefore, we must be careful not to over generalise, each location in the UK contains a variety of comparable but highly specific real estate markets which are contingent and socially produced in each context. Indeed, we must also be distrustful of simple binary oppositions between premium, stranded and redundant locations. Rather, it is likely that each location will be criss-crossed with variable rental structures and physical development that will either aid, or constrain, the creation of new floor space. This is why Liverpool, Cambridge and Oxford find themselves in both premium and stranded locations. Each of these locations have discernible areas of development potential but also exhibit certain areas of historical development which is not suitable for urban capitalisation. Much further empirical analysis is therefore needed to understand the locally specific nature of urban finance and its impact upon welfare, economic development, regeneration and the life chances of people in England.

However, what this paper does do is identify a potential spatial variegation inherent in the English method of decentralised urban finance. Consequently, the authors call for a research focus on Local Government finance and its associated urban finance models in three main areas. Firstly, it is not appropriate to introduce new urban finance processes without them being subject to some kind of intellectual oversight. It is therefore important to empirically monitor, evaluate and review new tools of urban finance in order to expose the

uneven geographical consequences of fiscal decentralisation and contemporary methods of urban finance. Second, there is considerable tension between the notion of fiscal devolution and equal redistribution and how both concepts might be reconciled. Indeed, the former leader of Newcastle City Council, Lord Jeremy Beecham argues that the BRRS could result in a case of,

'Passing the buck, without the bucks.'

(Newcastle Evening Chronicle, 28th March 2015)

This is because business rate retention, in certain locations, is about the amount of money coming into a location, rather than what could be generated in that location, a consequence of the variability in geographical tax base in terms of quantity and the concomitant ability for that tax base to expand.

Third, correctly in the authors view, Martin et al. (2015) have called for the devolution of financial powers to the regions and city regions of England, in order to exploit their economic potential and ameliorate spatial inequality. However, initial findings in this paper suggest that fiscal decentralisation is not straight forward and that we should therefore proceed with caution. An engagement with rental structures and the contingent textures of locally specific commercial real estate markets, should be incorporated into the scrutiny of urban financialisation, in order to help inform the devolution of financial powers. This is because the BRRS in England demonstrates that the global strategies of urban financialisation and economic development are typically bound up with, construed through, and grounded in the relative structures of locally specific commercial real estate markets, which in certain scenarios have evolved over centuries of development. We contend that pursuing this

approach could help contest the NUE idea that the increasing agglomeration of economic activity is a result of market driven 'spatial sorting' of workers and that the contingent effects of place are all but irrelevant (Martin et al., 2015).

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ⁱ The Core Cities Group is a collective voice for the cities of Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield (defined as the largest city economies outside of London). The Charter for Local Freedom is designed to echo the Magna Carter agreement of 1215 which questioned the right of royalty to rule over the whole country. The Charter for Local Freedom questions the right of central government to rule over local government.

ⁱⁱ We deviate from a UK wide perspective because In Scotland and Wales, the rates collected are pooled at the devolved level and redistributed to the billing authorities via a needs-based formula. Scotland also operates a Business Rate Incentive Scheme. In Northern Ireland, both the Northern Ireland Executive and the district councils set separate rating multipliers, with the full rate liability collected by the councils.

ⁱⁱⁱ This method of TIF exists within the BRRS and is subject to the 'levy' and 'top up' and 'tariff' arrangement and 10 year reset procedure. It is difficult to describe this method as a TIF because the ten year reset system makes it problematic to plan income and debt flows over the traditional 25-30 year time frames seen in TIF models. 'Generalised TIF' more realistically describes traditional prudential borrowing powers within the BRRS system.

^{iv} It is unlikely that this method of finance will be extended as it is funded out of the relatively small BRRS safety net. In contrast to BRRS, 'New Development Deals' are not subject to the 'levy' or 'top up' and 'tariff'

mechanism. The 25 Enterprise Zones announced since the 2008 also allow value uplift in existing property stock but have tight restrictions on geographical coverage.

^v The Municipal Bond Agency has been created in response to those locations that have expressed an interest in using municipal bonds. Funded through the proceeds of projected business rate expansion, these bonds will be used to finance and deliver infrastructure investment in a similar way to North America.

^{vi} Under Schedule 1 paragraph 39 of the Local Government Finance Act 2012, the Secretary of State may designate a geographical area which would not be subject to future levies and resets, thereby creating an area (and a stream of revenue) which is outside the Business Rate Retention Scheme and outside the current local government spending envelope. The Non-Domestic Rating (Designated Areas) Regulations 2013 (SI 2013/107) lists several dozen areas, many of which are New Development Deal Areas and Enterprise Zones, in which the local authority will retain 100% of business rates growth for the next 25 years. A further Order, the Non-Domestic Rating (Designated Areas) Regulations 2014 (SI 2014/98), was made in early 2014.

^{vii} According to Section 115 (1) of the General Rate Act 1967 'hereditament means property which is or may become liable to a rate, being a unit of such property which is, or would fall to be, shown as a separate item in the valuation list.'

^{viii} Rateable value is the amount equal to the rent at which the property might reasonably be expected to let from year to year. Current rateable values are based a valuation exercise that took part between April 2008 and April 2010.

^{ix} The pooling facility is potentially a powerful tool in strategic urban governance because it allows neighbouring authorities to form growth coalitions. This could counteract some of the iniquities involved in intra urban competition. However, it remains the case that those authorities with smaller property tax portfolios will be subservient to those authorities that have greater property tax portfolios.

^x The concept of capitalisation in this paper refers to the general ability of local governments to exploit property assets located within their administrative boundaries. Although clearly related, this is different to the concept of capitalisation in local government accounting which involves the tightly regulated conversion of capital into revenue.

^{xi} Occurs when existing levels of rent are not sufficient to cover the cost of refurbishment or redevelopment