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Capital gains:

What does the **Local Government Resource Review** mean for **London**?

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What does the Local Government Resource Review mean for London?

It may not sound like the most exciting of reforms, but the Local Government Resource Review (LGRR) has the potential to transform the way that local government finances are allocated in the future. The reforms aim to introduce a strong incentive for local economic growth, increase the autonomy of local government, while at the same time ensuring that all local authorities are able to continue to meet the needs of their areas.

In July, the Government launched a consultation on the LGRR. As it stands, London local authorities could see the way that they are funded change considerably. Many local authorities will be able to take advantage of the opportunities created and will be financially rewarded for supporting new development and business expansion. New revenues may be generated and used to fund infrastructure that enables the capital to continue to grow. Inevitably, just as some local authorities may benefit from the system, some that do well financially under the current arrangements may not see the growth they've seen in the past. The LGRR also opens up the opportunity for London local authorities to work together in a pan-London business rates pool.

"Many local authorities will be able to take advantage of the opportunities created and will be financially rewarded for supporting new development and business expansion"

This research note sets out how the LGRR will impact on London local authorities, drawing on Centre for Cities' recent report *Room for Improvement*.[1] It considers how London local authorities' business rates revenues have grown over the past decade, the role of pooling in the London context, how the reforms could be introduced and the implications of the LGRR consultation.

Direct implications of the LGRR for London:

- Local authorities will be financially rewarded for bringing forward more commercial development
- Local authorities will see their budget growth change, for better or for worse
- Local authorities can collaborate and form a pan-London business rates pool to meet shared objectives

What is the Government proposing?

The LGRR consultation proposals are extensive and complex.[2] The consultation document itself is accompanied by eight technical papers covering specific aspects of the proposals. The starting point is that in fiscal year 2013/14, after an adjustment for further spending cuts, all authorities will receive roughly the same amount of money from redistributed business rates as they received in 2012/13. However, their Formula Grant (the current monies passed on to local governments from business rates pooled centrally) will be replaced by a proportion of their locally collected business rates (LCBR).

1. Larkin K, Wilcox Z & Gailey C (2011) *Room for improvement: Creating the financial incentives needed for economic growth*, London: Centre for Cities
2. Department for Communities and Local Government (DCLG) (2011) *Local Government Resource Review: Proposals for Business Rates Retention*, London: DCLG

In 2013/14, areas where LCBR exceed the Formula Grant will have to pay a tariff to central government equal to the surplus. Areas where the Formula Grant is larger than the LCBR will receive a top-up grant equal to the deficit. These tariffs and top ups will then be fixed into the future, either in cash terms or in real terms - rising in line with the Retail Price Index (RPI).

In future, local authorities will then be able to retain a proportion of the growth in business rates they achieve from new development over the initial baseline. However, authorities will not be able to keep all of the growth in their local tax base. The Government has proposed a variety of ways to place a levy on growth to limit the revenues gained by local authorities that see “disproportionate benefits”. The proceeds of this levy will be used to protect councils that experience a large reduction in their funding.

“There was significant variation in the business rates growth experienced by London local authorities”

To prevent an indefinite divergence in local authority budgets, the Government intends to reset the system at various points in time. It has not decided whether these resets will occur on a fixed basis or intermittently as Government sees fit. It has also yet to decide whether the resets will include the growth in business rates or only reset the baselines. Indeed, it has been suggested that the final solution may contain all of these elements.[3] The Government does intend to adjust the baseline after revaluations, however. Accordingly, local authorities will only be rewarded for growth from new development, not growth from increased rental values. The resulting implications for Tax Increment Financing (TIF) are discussed later on.

London’s business rates performance

London accounts for a significant proportion of the country’s business rates tax income. Of the £20 billion in business rates collected in England in 2010/11, London accounted for £5.4 billion or 27 percent.[4] Taking the city as a whole, London has seen impressive business rates growth in recent history. Relative to the amount raised in 2000/01, an additional £1.2 billion in business rates revenues were raised in London in 2010/11 - a 30 percent increase in real terms.[5]

Unsurprisingly, there was significant variation in the business rates growth experienced by London local authorities. Tower Hamlets saw the biggest increase in rates receipts with its LCBR doubling (Figure 1). The other local authorities that saw large increases were Hammersmith and Fulham (90 percent), Southwark (59 percent) and Camden (55 percent). These figures include growth from revaluation, which the Government currently intends to exclude.

At the other end of the scale, five London local authorities saw real declines in their LCBR over the period. Bromley (-3 percent), Lewisham (-5 percent), Croydon (-6 percent) and Harrow (-17 percent) all collected less revenue in business rates in 2010/11 than they did in 2000/01.

3. DCLG (2011) *Local Government Resource Review: Technical paper 1: Establishing the baseline*, London: DCLG
4. DCLG (2011) *Local Government Finance Statistics England: No. 21 2011*, London: DCLG
5. These time periods were chosen to reflect increases in business rates between years in which rateable values of business stock were updated (2000, 2005 and 2010).

"The growth performance of the individual local authorities largely reflects their differing economic roles within London"

Figure 1: London local authorities[6] which have seen the biggest growth in their collectable business rates tax bases (2000/01 to 2010/11)

Rank	Local authority	Business Rate Revenues for London local authorities (2010/11) *(Rank)*	Real growth in business rates (1999-2010) (£000s)	Percent
1	Tower Hamlets	288,100 *(5)*	146,500	103%
2	Hammersmith & Fulham	159,300 *(8)*	75,300	90%
3	Southwark	173,100 *(7)*	64,500	59%
4	Camden	363,000 *(3)*	129,400	55%
5	Kensington & Chelsea	217,300 *(6)*	71,300	49%
6	Westminster	1,226,500 *(1)*	358,500	41%
7	Islington	150,100 *(9)*	39,800	36%
8	City of London	664,700 *(2)*	151,500	30%
9	Lambeth	95,100 *(15)*	21,000	28%
10	Newham	80,700 *(18)*	17,100	27%
11	Hackney	66,400 *(23)*	13,700	26%
12	Merton	75,500 *(21)*	15,000	25%
13	Richmond upon Thames	73,600 *(22)*	14,100	24%
14	Enfield	95,400 *(14)*	17,700	23%
15	Wandsworth	90,300 *(17)*	15,900	21%
16	Ealing	126,600 *(11)*	16,500	15%
17	Kingston upon Thames	75,900 *(20)*	9,400	14%
18	Hillingdon	313,300 *(4)*	38,700	14%
19	Havering	65,000 *(24)*	7,400	13%
20	Brent	91,500 *(16)*	8,500	10%
21	Hounslow	135,200 *(10)*	11,800	10%
22	Barking & Dagenham	48,800 *(31)*	4,100	9%
23	Barnet	97,000 *(13)*	7,400	8%
24	Sutton	49,100 *(8)*	2,900	6%
25	Bexley	58,200 *(25)*	3,400	6%
26	Waltham Forest	48,800 *(30)*	2,500	5%
27	Redbridge	49,000 *(29)*	400	1%
28	Haringey	54,600 *(26)*	300	1%
29	Greenwich	54,200 *(27)*	-100	0%
30	Bromley	76,100 *(19)*	-2,200	-3%
31	Lewisham	44,200 *(33)*	-2,200	-5%
32	Croydon	100,100 *(12)*	-6,900	-6%
33	Harrow	44,900 *(32)*	-9,400	-17%

* Deflated using the GDP price deflator (2009/10 prices)
Source: DCLG

The growth performance of the individual local authorities largely reflects their differing economic roles within London. Tower Hamlets' stellar growth is clearly the result of the extensive development that continues to take place in Canary Wharf, alongside the rise in property values of the existing commercial stock driven by high levels of demand. In the case of Hammersmith and Fulham, significant inward investment and developments like Westfield's White City shopping centre will have boosted its business rates tax base.

6. While the City of London is not a London local authority it is included as a significant business rates collector.

Generally, it is the inner London local authorities that have seen the greatest growth, a pattern that is likely to continue. This is because these are the locations where commercial development is concentrated and where businesses want to locate. Accordingly, outer London local authorities (e.g. Bromley, Bexley and Harrow) primarily function as residential locations for commuters and are unlikely to be able to increase their business rates by as much central local authorities. However, these locations will still face an incentive to encourage and permit the development that can occur, which would increase their tax bases.

An incentive-based system benefits some while others see growth decline

"A system where incentives are introduced will inevitably create places which benefit relative to the current system and those which lose out"

A shift from the current redistributive system of local government finance to a system where incentives are also introduced will inevitably create places which benefit relative to the current system and those which lose out. Analysing the local authorities that saw a large increase in their LCBR provides a clue to this pattern, but it is not the full story. Beyond business rates redistribution, local authorities also receive substantial grants back from central government. Under the new system this will change with grants making up a much smaller proportion of local authorities' funding.

To provide a guide as to the local authorities likely to benefit from the move to an incentive-based system (all else equal), we compare the growth in LCBR between 1999/2000 and 2009/10 with the growth in redistributed rates received from central government over the same period.[7] London local authorities that have seen greater growth in their LCBR than the growth in the grant received from central government (redistributed Non-Domestic Rates) would likely benefit under the new system.

As Figure 2 shows, over the last decade most authorities have seen business rates growth. This suggests that, if the trends continue, most authorities in London would see growth in their local budgets within a retention system. However, some outer boroughs are more likely to see slower business rates growth; this is in part due to their increasing role as residential authorities and less as places of business. For these authorities it will be important to focus on their strength in housing with complementary commercial space, as most budget growth would likely come from Council Tax revenues as well as instruments such as the Community Infrastructure Levy (CIL).

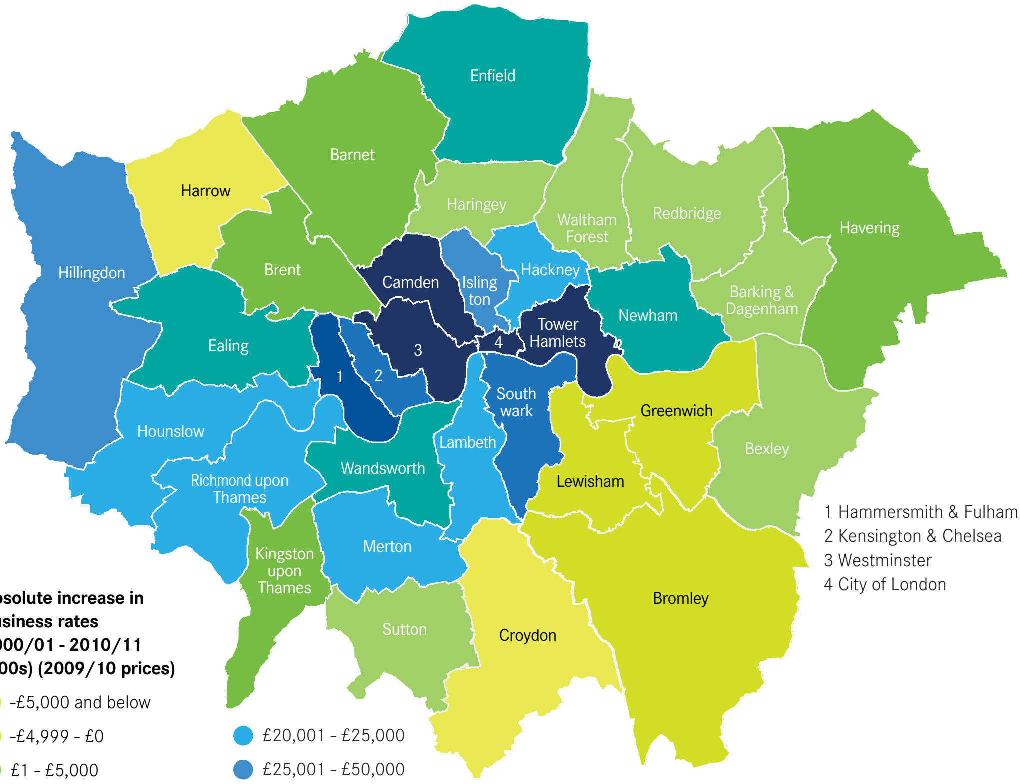
The new context of business rates retention and distribution from 2012/13 onwards has implications for the budgets of London's local authorities. Figure 3 outlines the potential impact that this changing context could have on local authorities.

7. It would be preferable to include the growth in the Revenue Support Grant, but changes to the way the schools are funded mean that this is not possible to do on a comparable basis over the period in question.

"Over the last decade most authorities have seen business rates growth. This suggests that, if the trends continue, most authorities in London would see growth in their local budgets within a retention system"

Figure 2: Growth in London local authorities' business rates (2000/01 - 2010/11)

Absolute growth in business rate receipts

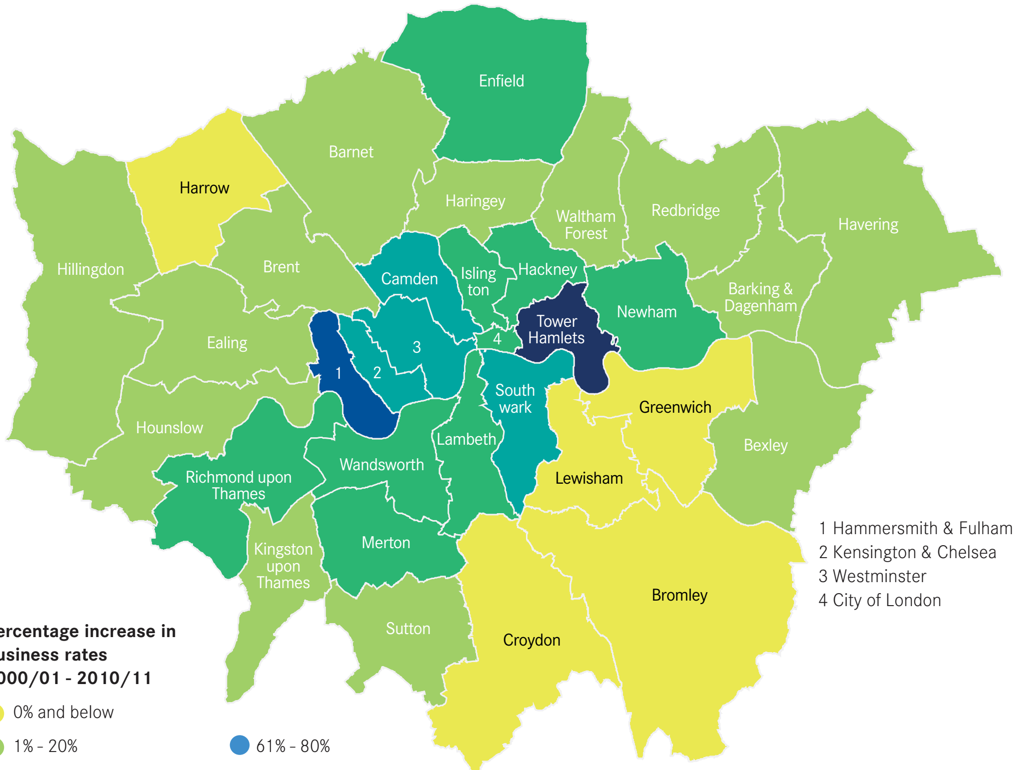


1 Hammersmith & Fulham
2 Kensington & Chelsea
3 Westminster
4 City of London

Absolute increase in business rates 2000/01 - 2010/11 (000s) (2009/10 prices)

- -£5,000 and below
- -£4,999 - £0
- £1 - £5,000
- £5,001 - £10,000
- £10,001 - £15,000
- £15,001 - £20,000
- £20,001 - £25,000
- £25,001 - £50,000
- £50,001 - £75,000
- £75,001 - £100,00
- £100,001 and above

Percentage growth in business rate receipts



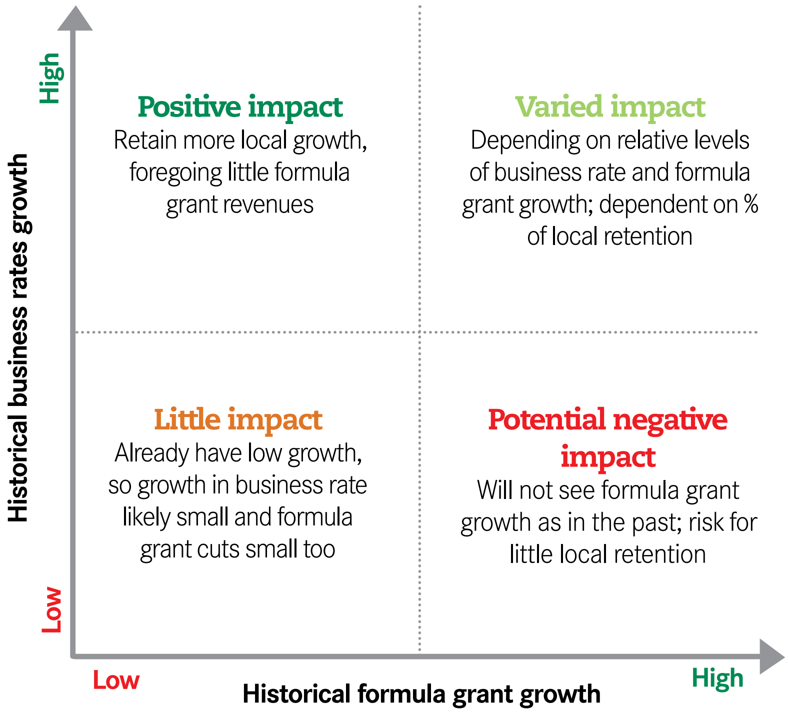
1 Hammersmith & Fulham
2 Kensington & Chelsea
3 Westminster
4 City of London

Percentage increase in business rates 2000/01 - 2010/11

- 0% and below
- 1% - 20%
- 21% - 40%
- 41% - 60%
- 61% - 80%
- 81% - 100%
- 101% and above

Source: DCLG

Figure 3: Potential combined impact of retention incentives and budget cuts on local authorities



"One method for dealing with the variation of winners and losers across local authorities located close to one another is pooling"

Pooling in London

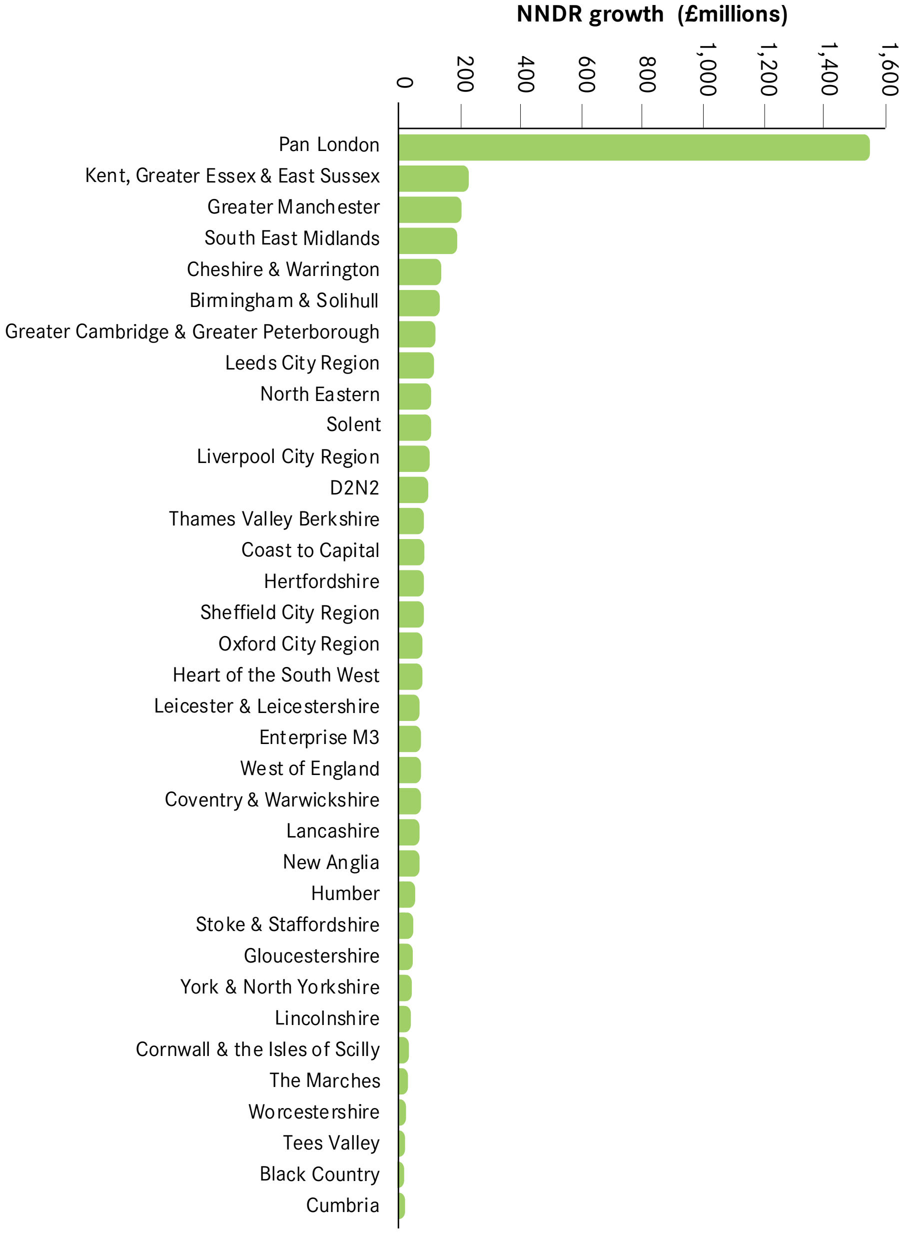
One method for dealing with the variation of winners and losers across local authorities located close to one another is pooling. The Government has promoted pooling as part of the LGRR to aid economic collaboration, to take advantage of efficiencies and to manage volatility in individual authorities' budgets. This recognises the interlinked nature of London's economy, despite the significant disparities in the business rate take of different local authorities. However, this issue cannot be considered in isolation. The question of the pooling of business rates receipts should perhaps be considered alongside the allocation of other responsibilities and decision making functions across the capital.

Like the Government, London Councils has advocated of a pooling model.[8] In their proposed model each local authority would contribute part of their business rates yield into a central pot, which would then be allocated between the local authorities. Any future growth in business rates, after the deduction of a levy sent to central government, would then be shared – the local authority keeping some proportion of the growth and the rest being distributed across the other London local authorities via a "secondary pool".

Pooling certainly provides a number of opportunities and is probably more relevant to London than any other city-region or Local Enterprise Partnership (LEP). Of the LEPs, the business rates growth that the Pan-London LEP achieved between 1999/2000 and 2009/10 far exceeded the growth of others - although a substantial proportion of this will be due to an increase in property values (Figure 4). The strong growth performance of business rates yields in London is a pattern that we would expect to continue.

8. London Councils (2011) *Resourcing London - a model for retained business rates*, London: London Councils

Figure 4: Real growth in annual business rates revenues by Local Enterprise Partnership (1999/2000 - 2010/11)



Source: DCLG

"Perhaps the most important benefit of pooling at the Pan-London level is the potential for generating a substantial revenue stream"

Perhaps the most important benefit of pooling at the Pan-London level is the potential for generating a substantial revenue stream. This would enable London as a whole to use some of the business rates growth it captures to forward-fund infrastructure projects that create benefits for the whole of the London economy and ultimately the national economy. Such a revenue stream would be able to be borrowed against and used in TIF type deals, although the viability of such deals will depend on the approach taken to, and time between, baseline resets.

Pooling at the city-region level would also allow business rates revenues to be used to fund the infrastructure the Capital needs to boost growth, rather than on infrastructure in the London local authority where the revenues happen to be generated. This is important because the administrative boundaries of London, as in the rest of the UK, are fairly arbitrary.

It is important that planning decisions, particularly those on significant developments, are taken at the correct spatial scale, capturing their positive and negative impacts. It does not make sense to consider the "economy" of a single London local authority in isolation when so many workers cross these boundaries during their commute to work. The size of the London pool would also reduce the level of risk associated with the borrowing, ultimately making it cheaper to finance projects if accessing funding from the capital markets. Combining business rates revenues with other tools, such as the CIL and New Homes Bonus (NHB), could create an even larger revenue stream to borrow against, although the likelihood of local authorities choosing to pool these funds is uncertain.

Pooling also has some drawbacks. One of the key elements of the LGRR is the idea of incentivising growth. Practically, this primarily means influencing the planning decisions that have an impact on new commercial development and business expansion. A pool would reduce the size of the incentive at the local level to permit additional development, where many planning decisions are taken.

It is vital that within the new local government finance regime, strong incentives are offered at the same level that planning decisions are taken, so that incentives are targeted at the appropriate decision makers. This could be either at the local or city-wide level. Depending on the outcome of the LGRR, the Greater London Authority (GLA) and London local authorities may have to look again to see whether these two mechanisms are effectively aligned.

Options for consideration

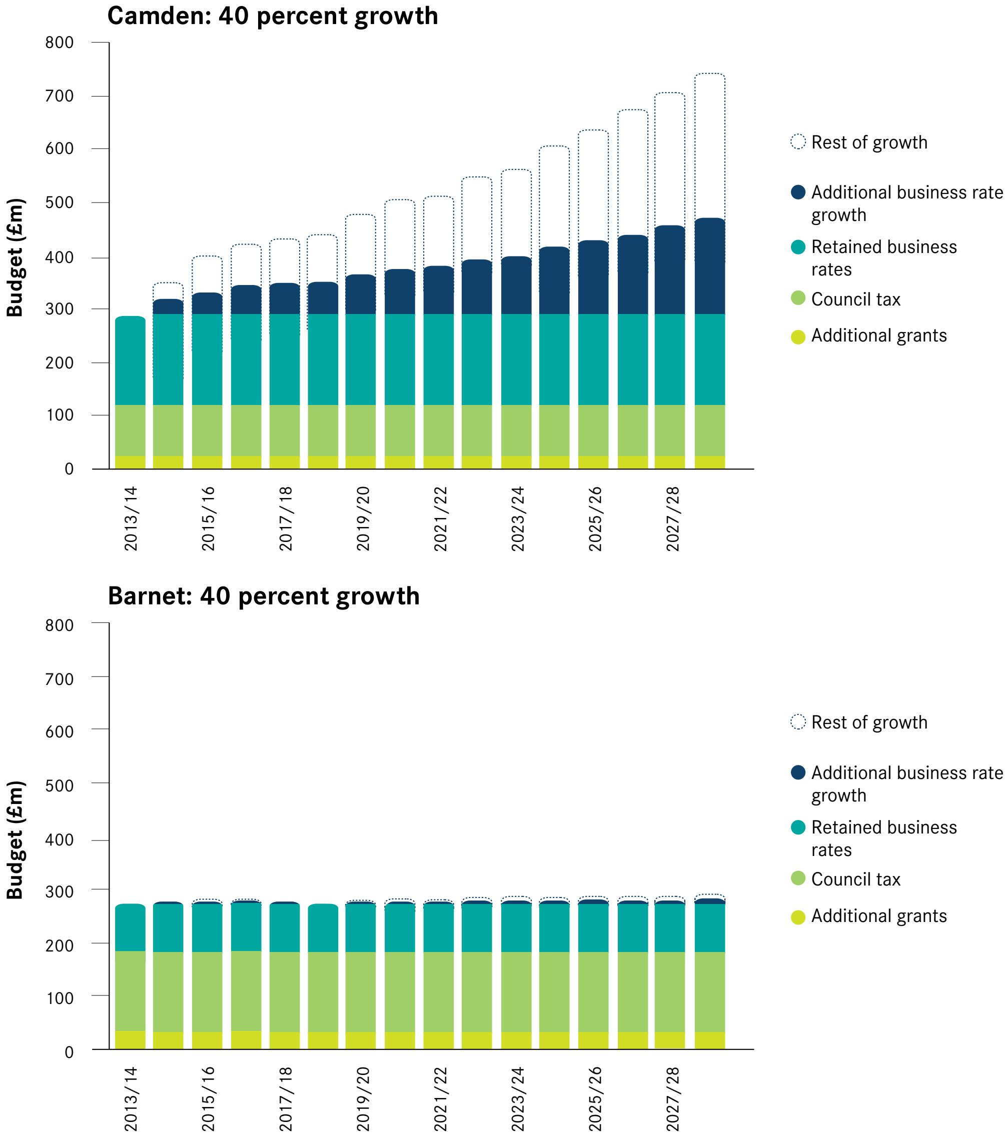
How to ensure the system creates a sufficient incentive

In the report, *Room for Improvement*, the Centre for Cities makes a number of proposals as to how the Government should reform local government finance. One of the key recommendations is allowing local authorities to retain a fixed proportion of their local business rates growth of between 40-60 percent, indefinitely. It is argued that this could create a strong, long term and simple incentive for growth. It would also place a limit on the amount of divergence that would occur in local authority budgets in the medium term, while providing the Government with a source of revenue to continue to deal with issues around need. An example of the impact that such an incentive would have on the budgets of Camden and Barnet is shown in Figure 5.

"One of the key recommendations is allowing local authorities to retain a fixed proportion of their local business rates growth of between 40-60 percent, indefinitely"

This example illustrates that authorities like Camden, able to expand their business rates tax base, would face a strong incentive for growth. However, it is important to note that these projections are based on growth during a relatively buoyant property market in London. Authorities like Barnet, if historical patterns were repeated, would see only a very small increase in their total budget. In real terms Barnet's business rates tax base grew by less than one percent per year between 2000/01 and 2010/11. This obviously would not preclude the incentive encouraging Barnet to allow for significantly more development, thus boosting its tax base. This would be reliant on the level of demand for commercial space and new development in Barnet.

Figure 5: Illustration of Camden and Barnet's budgets under a fixed percentage of growth model - retaining 40 percent of business rates growth (2013/14 - 2028/29)[9]



Source: DCLG

"In order to make the local government finance system more stable as a whole, it could be beneficial to remove a few of the authorities that have very large business rates tax bases, relative to their current budgets"

The fixed percentage model is included in the LGRR consultation as "option one" of the three options for introducing a levy on disproportionate growth. However, based on the length of the discussions dedicated to each alternative, it appears that the Government's preferred option is to create an individual levy for each local authority (option three in the LGRR consultation).

Should "big winners" be treated differently?

Another option has been tabled which would have significant implications for London. In order to make the local government finance system more stable as a whole, it could be beneficial to remove a few of the authorities that have very large business rates tax bases, relative to their current budgets. For these "big winner"

9. These models assume the same year-on-year growth as occurred 1998/99 to 2013/14, using projected growth from 2010/11 onward. These scenarios are moderate, suggesting a 40 percent retention model, which is the lower end of what the Centre for Cities advocates.

authorities, relatively small percentage increases in the size of their business rates tax bases would result in a very large increase in their spending power. This is unlikely to be politically unacceptable.

The local authorities likely to be included in this list would all be in London - for example, Westminster, City of London, Tower Hamlets and Camden. The precept powers held by the City of London could be extended to these authorities, thus excluding them from the new general local government finance system. This would ensure that they would have a financial incentive to support new development and a method for generating additional income.

Would it help to create an incentive to pool resources?

"There is a danger that the reforms introduced by the LGRR will fail to be as bold as they could be"

There is another option to consider, instead of excluding the "big winners" from the new system, or setting their baseline at a high level to reflect the scale of the business rate intake. This could be to incentivise the pooling of resources across London by allowing the "big winners" to keep a greater proportion of their business rates, on the condition that they contribute a greater proportion of their rates to a pan-London pool, thus allowing for greater redistribution across the capital and reflecting the interlinked nature of the local authorities' economies and needs. This would have implications for the setting of the levy and tariff for these local authorities.

There are benefits to the wider economy if local authorities pool their funds for projects, but designing pooling to work with different authorities is difficult. Pooling can assemble funds necessary to unlock the economic potential of areas via projects which are often too expensive for one authority to fund.

However, there is currently insufficient support built into the retention scheme to support and incentivise this behaviour. Local authorities that may contribute more to the pool than they receive are likely to be reluctant to join. If Government recognises and values the benefits, then it should be prepared to incentivise the behaviour. Such an approach would allow authorities to keep a portion of their business rates above and beyond what they would without pooling. For some "big winner" authorities, where pooling could make the greatest impact on the size of the pot, this could provide the incentive to join a such a scheme in London.

Responding to the Local Government Resource Review Consultation

Based on the preceding analysis, there are four key issues that need to be considered by London local authorities when responding to the LGRR consultation and acting on its implementation.

1. Advocate the creation of a strong incentive for growth

There is a danger that the reforms introduced by the LGRR will fail to be as bold as they could be. A small individual levy, regular resets that include business rate growth, an extensive safety net and adjustment for revaluation, would each dampen

the strength of an incentive for growth. In combination, their effect would be severe and the new system may end up functioning in much the same way as the current arrangements. This would be a missed opportunity.

Many of the London local authorities stand to gain from the move to an incentive-based system and, as argued in *Room for Improvement*, there are also national economic benefits from improved economic efficiency. Accordingly, the local authorities would benefit collectively from the creation of a strong incentive for growth and should advocate bold reform in their responses to the Government consultation.

"Many of the London local authorities stand to gain from the move to an incentive-based system and there are also national economic benefits from improved economic efficiency"

2. Revaluation revenues should be captured as part of the business rates growth uplift

Currently, the Government intends to restrict the business rates growth captured by local authorities to that associated with new development, excluding the growth due to increases in the value of properties.

One rationale for this decision is a "gaming of the system" argument. In widely-bounded authorities facing little local competition as a business location, an authority could restrict development to drive up prices and boost its revenues. Clearly this would be an undesirable and unintended consequence of these reforms, but its likelihood of occurring in London is low. It is also clear that in many locations the increase in rental values is affected by many factors, not just the actions of local authorities.

Figure 6: Weighing up the consequences of excluding growth due to value increases

Negatives of excluding growth due to value increases	Benefits of excluding growth due to value increases
• Reduces the size of the incentive	• Removes unintended incentive to restrict development and drive up prices
• Removes incentive for place-based improvements that increase value of properties	• Does not "unfairly" reward places which benefit from price increases not resulting from local policy actions
• Places limitations on TIF	

However, there are also downsides to excluding rental value uplift. Only including the growth from additional development will substantially reduce the incentive's size. It will also mean that authorities do not benefit financially from policy interventions that improve the business environment, for example, infrastructure or public realm improvements that make a location more attractive for businesses to locate in, thus increasing local property values. This may also place limitations on the ability of certain types of TIF type projects to use business rates uplift to support infrastructure improvements.[10]

10. Option 1 TIFs are not expected to be able to access revaluation uplift as they will operate within the new local government finance framework. Option 2 TIFs or "defined area TIFs", if they are introduced, are expected to be able to capture growth from revaluation.

While there are downsides to incorporating revaluation growth as part of the business rates growth uplift, the positives appear to outweigh the negatives. Real value can be added to a city's economy by improving the public realm, and this is reflected in the value of commercial properties.[11] This would suggest that the Government should reverse its decision and enable local authorities to capture rental growth and the growth related to new development.

3. Develop London's proposals for pooling

It seems likely that part of the solution to the new arrangements in London will involve a city-wide pool, such as that proposed by London Councils. It is important that the arrangements for a pool are carefully worked out. Decisions over pooling cannot be taken in isolation from the responsibilities for other policy areas.

"Developing a system for identifying, approving and securing the upfront funding for these projects, in which all London local authorities have an input and endorse, will be vital"

Firstly, it is essential that as well as pooling business rates revenues, a sizeable incentive must exist at the level at which planning decisions are made, directly influencing decision makers. This either suggests ensuring that the proportion of business rates growth that is retained by local authorities in the first instance[12] is large, or rethinking the interaction of the decision-making process at different levels of the planning system and agreeing to transfer powers as appropriate, which seems less likely.

Secondly, the mechanism for distributing and using these pooled funds, and the governance that surrounds them, will require careful thought. It would be preferable if, as far as possible, the pooled funds could be used for interventions that create economic benefit for the whole of London, such as transport upgrades, school building programmes or wider regeneration projects. Developing a system for identifying, approving and securing the upfront funding for these projects, in which all London local authorities have an input and endorse, will be vital.

One solution may be to develop multiple sub-London pools. For example, a pool could be created to cover West Inner-London, perhaps on a similar or expanded basis as the proposed merger of services between Westminster, Hammersmith and Fulham and Kensington and Chelsea.[13] Equally, the authorities of the North London Strategic Alliance (NLSA) could form a pool.[14] Whilst there may be some practical merits of establishing sub-London pools, they risk adding unnecessary technicalities to an already complicated system of local government decision-making and finance. Before proceeding with such an approach, it is vital to ensure that the benefits of the solution outweigh the negatives.

There is also the option to incentivise the pooling of business rates on a pan-London basis by allowing the "big-winners" (Westminster, Camden, Tower Hamlets and the City of London) to keep a greater proportion of their rates, in order for them to

11. CABE (2007) *Paved with Gold: the real value of good street design*, London: CABE
12. Subsequent to the original agreement authorities may jointly decide to commit additional funds for the purpose of funding infrastructure improvements.
13. BBC News (2011) 'Council jobs at risk as London boroughs merge services', published by *BBC News*, 9 February 2011
14. Which includes: Barnet, Camden, Enfield, Hackney, Haringey, Islington, Redbridge and Waltham Forest

contribute more towards redistribution across the capital.

Government should also consider offering an incentive to encourage pooling, because it creates opportunities for growth beyond the general rates retention system. An additional amount of retention for those authorities in a pool could incentivise "big winners" to enter into the pool. This would both provide a mechanism for undertaking strategic cross boundary projects as well as provide a means to share the benefits of growth more widely across the capital.

4. Negotiate a London Enterprise Zone settlement

The LGRR will enable local authorities to capture a significant share of the growth in their local business rates base. For Enterprise Zones, these business rates are to be pooled directly at the LEP level. Areas like Newham, where the Royal Docks has been selected as an Enterprise Zone, could argue that they are "missing out" on revenues that under the new local government finance system they would have been able to access. The GLA believe these revenues could be better spent serving the whole of the London economy's interests.

"The LGRR is a tremendous opportunity for English cities and London in particular and could result in the introduction of real incentives for growth"

It is likely that a compromise will need to be reached between the local authorities and the GLA whereby a proportion of the revenues from any Enterprise Zone in London will be transferred to the city-region level - to be spent on London wide infrastructure priorities - while some of the revenues would remain in the local authority in which the zone is located. These local revenues should at least be large enough to cover the investment needs directly linked to the Enterprise Zone site itself.

Conclusion

This research note has sketched out some of the key considerations facing London local authorities in the LGRR. Our analysis suggests that many London local authorities would stand to benefit from a move to a more incentive-based system.

The paper has also outlined the key policy choices faced by London local authorities. It argues that all London local authorities need to advocate for bold reform and the creation of a strong incentive for growth, that growth in rental values also needs to be captured by local authorities, and that work needs to be done to ensure that proposals for pooling offer London real benefits and the opportunity to secure new infrastructure investments. Lastly, a settlement needs to be reached on the revenues from any London Enterprise Zone.

It must also be remembered that, in the short term, faced by spending cuts and rising service delivery costs, the demands of providing everyday services are likely to account for any growth increment. Nevertheless, the LGRR is a tremendous opportunity for English cities and London in particular and could result in the introduction of real incentives for growth. It is vital that the opportunity is seized and change is delivered.

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For further details see www.centreforcities.org/incentives or contact Andrew Carter, Director of Policy and Research, Centre for Cities:
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