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city solutions: financing local growth

towards a supplementary business rate?

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Summary and key points

Supplementary Business Rates (SBRs) have recently been proposed as a mechanism to allow cities to generate additional funds for infrastructure investment. This paper presents new analysis that illustrates their possible contribution and the main challenges that must be tackled by city leaders, business and central government if SBRs are to finance local growth. It is part of the joint *City Solutions* project undertaken by Centre for Cities and PricewaterhouseCoopers LLP.

- Our analysis suggests that a 4p supplement would:
  - Generate in excess of £400m a year in London, which could support loans of over £6bn if the SBR was committed over a thirty-year period.
  - Generate around £300m a year, in total, in 34 other English cities and towns. This sum could be used to lever in loans of £4.5bn for new infrastructure.
- In total, SBRs could potentially underpin £11bn of new, accelerated investment in England's cities, if in place for 30 years.

- The Government's recent Sub-National Review of Economic Development and Regeneration (July 2007) acknowledged that local authorities require additional powers and incentives to promote economic growth.
- The Review committed the Government to take 'a closer look' at SBRs – the power for local authorities, with the support of business, to levy a supplement on the national business rate within their area, and use the proceeds to invest in key local infrastructure. SBR could help fund some new infrastructure, but should be part of a wider tool-kit to finance local growth.
- If implemented, SBRs would be a new tax. However, if designed properly, with a clear role for business in identifying key infrastructure projects for investment, they could help to promote business growth and stronger local economies.
- SBRs and long-term borrowing could help to speed up urban infrastructure projects that are important to the success of England's businesses. Crossrail in London, the extension of Manchester's Metrolink, and the redevelopment of Birmingham New Street Station, are clear examples.
- As the Communities and Local Government Select Committee has recently noted, some basic parameters need to be set before SBRs can be used to support local growth. Important questions around business accountability, supplement size, geographical scale, and time limitations need to be answered over the coming months.

1. Supplementary Business Rates explained

The power to levy a supplement on the national business rate would help England's cities to generate significant additional funds for targeted investment. Before discussing SBRs in greater detail, this section briefly reviews the current national framework for business rates.

What are business rates?

Collected by local authorities, business rates (otherwise known as the national non-domestic rate) are the means by which businesses and others who occupy non-domestic (that is, non-residential) property make a contribution towards the cost of local services. The rates are paid into a national 'pool' and then redistributed to local authorities according to the number of people living in the area (except in the City of London, where other arrangements apply).

"The power to levy a supplement on the national business rate would help England's cities to generate significant additional funds for targeted investment."

Prior to 1990, business rates were set by individual local authorities. This changed following the nationalisation of the business rate, from which point the tax rate has been set centrally, and revenues collected are redistributed as part of the government grant system. This process is known as 'equalisation'. The business community says this system creates stability and certainty, while councils claim it breaks the tax link between local government and business. It also provides no fiscal incentive for local authorities to grow their business base.

Business rates are chargeable on all non-domestic properties, except land or buildings used for agriculture.[1] Each property has a rateable value, which reflects its assumed annual rental value. The amount paid is based on a national rate per pound of rateable value – this is known as the national rate multiplier. The multiplier for 2006-07 in England was 43.3p for larger businesses, although reliefs and exemptions exist for small businesses (see annex).

Current legislation says that neither the multiplier nor revaluation can be used to increase the total yield from the tax by more than inflation. The net effect of this 'cap' is to reduce the relative share that business rates contribute to the tax pot over time. For example, the proportion of local government spending funded by business rates has fallen over the last 17 years from around 29 per cent before 1990 to 20 per cent in 2006-07 (Lyons 2007). Thanks to this shift, local infrastructure improvements have become more dependent on city residents – through the council tax – over the last two decades. Since 1993-94 Band D council tax has risen by 132.2 per cent, whereas the business rate, after adjusting for the effects of revaluation, has risen by only 41.3 per cent (CLG Committee 2007).

Calls for reform have grown over recent years, especially from local authorities, who would prefer a full 're-localisation' of rates. This is not realistic in the short term, but if successful, SBRs could serve as a stepping stone to full re-localisation at some point in the future.

What are Supplementary Business Rates?

Supplementary Business Rates would give local authorities the power to levy an additional supplement (for example, 5–10 per cent) on the national business rate within their area. Funds generated by SBRs could be used to underpin prudent borrowing and other forms of capital financing. SBRs constitute a new tax on business, but revenue would be retained locally and ring-fenced to

1. These exemptions may change as a result of the Lyons Inquiry into Local Government, and proposals in Budget 2007 and the associated Finance Bill. The statistical analysis in this paper uses current exemptions and reliefs to calculate the potential take from a Supplementary Business Rate.

"SBRs constitute a new tax on business, but revenue would be retained locally and ring-fenced to specific infrastructure projects jointly identified and selected by councils and businesses."

raise finance for investment in specific infrastructure projects jointly identified and selected by councils and businesses. The longer the period an SBR would be in place, the greater the fundraising potential.

SBRs would afford local authorities greater freedom to respond to local investment priorities, and could help them unlock selected infrastructure investments.

As Table 1 shows, SBRs have been considered on a number of occasions during the last decade. But the Government's commitment in the recent Sub-National Review (HMT *et al* 2007) to consult on taking the policy forward has given SBRs a new momentum.[2] At the same time, the growing need for local infrastructure investment has led councils and businesses alike to press for new ways to deliver results without recourse to central government.

Table 1: A brief history of Supplementary Business Rates

1990 – Business rates are nationalised	The power to set business rates is removed from the hands of local authorities. Central government to set the 'national business rate' annually.
1998 – *Modernising Local Government Finance* published	Government White Paper considers SBRs but plans fail to make them into legislation. (DTLR 1998)
2004 – *Balance of Funding Review* published	Office of the Deputy Prime Minister considers reform of the business rate. Local authorities in favour of re-localisation, but business groups against any such reform. SBRs suggested as a compromise, but no consensus reached. (ODPM 2004)
2006 – *City Leadership* published	Centre for Cities argues for 2p city-regional SBR, ring-fenced for investment in local transport infrastructure. (Marshall and Finch 2006)
Feb 2007 – *Loosening the Leash* published	First report of the All Party Parliamentary Urban Development Group backs SBRs as part of a wider tool-kit for local authorities to unlock greater private sector investment. (APUDG 2007)
Mar 2007 – *Lyons Review into Local Government* published	Sir Michael Lyons recommends the introduction of the power to levy an SBR of up to 4p for councils across England. (Lyons 2007)
Jul 2007 – *Sub-National Review of Economic Development and Regeneration* published	Government states that SBRs have the potential to 'provide a powerful new tool for local authorities' (HMT *et al* 2007: 4). Government to consult with local government, business and other stakeholders, and report back later in the year on ways to take SBR forward.
Aug 2007 – CLG Committee report on SBR published	CLG Committee supports introduction of SBR as 'first step in financial devolution', with strong local discretion to set rate, duration, and investment priorities in consultation with business. (CLG Committee 2007)

"Support is growing for SBRs at both local and national levels."

2. The *Sub-National Review of Economic Development and Regeneration* was a cross-department government review that reported on 17 July 2007. It aimed to present proposals to strengthen economic performance in regions, cities and localities across England, and to respond more effectively to tackling pockets of deprivation.

Case study: Greater Manchester (10 local authorities)

A 2p supplement on the business rate across Greater Manchester (10 authorities) could yield approximately £40m per year – and potentially support a 30-year loan of £600m. This could assist Greater Manchester to complete Metrolink Phase III at current cost projections.

Support is growing for SBRs at both local and national levels. A recent survey suggests that of all Michael Lyons' recommendations, the power to levy a supplementary business rate is assessed by local government chief executives as most likely to benefit their local authority (CIPFA 2007). The cross-party Communities and Local Government (CLG) Select Committee has also given its strong endorsement, with chair Dr Phyllis Starkey MP arguing that 'Supplementary business rates could offer local areas a means of investing in themselves, in their futures and in their economic development' (CLG Committee press notice, 7 August 2007).

The Mayor of London, in his memorandum to the CLG Select Committee Inquiry on SBRs, highlighted the importance of Supplementary Business Rates to infrastructure development in the capital, and in particular their role as a key component of any Crossrail financing package (GLA 2007). And some chambers of commerce, such as those in Greater Manchester, the West Midlands and the North East, have expressed interest in exploring SBRs as a mechanism to move specific infrastructure projects forward.

"An SBR levied across Greater London has very high revenue-raising potential, and could support substantial investment for infrastructure, such as Crossrail."

The next section considers the scale of the financial benefits that SBRs could potentially offer to England's cities and towns.

2. New analysis: what Supplementary Business Rates could deliver

Starting with data generated by the Lyons Inquiry into Local Government, PricewaterhouseCoopers (PwC) and the Centre for Cities have generated indicative figures for SBRs of 2p and 4p in a range of urban areas across England. These calculations adopt existing business rate reliefs and exemptions, so as to avoid regressive impacts on smaller businesses. For the full results and a breakdown of methodology and assumptions, see the Annex to this paper.

An SBR levied across Greater London has very high revenue-raising potential, and could support substantial infrastructure investment. A 4p SBR in the capital could raise in excess of £400m annually, which could support loans of approximately £6bn if committed for 30 years.

Collectively across England's other large cities and towns, an SBR of 4p could raise approximately £300m per year – which, in turn, could support loans over £4bn if committed for 30 years.

Tables 2 and 3 illustrate the potential for SBRs to underpin substantial capital investment. They also show calculations for three metropolitan counties – illustrating the greater power of SBR if it is levied at the sub-regional or city-regional level, rather than in a single local authority.

The 2p SBR modelled in Table 2 represents a supplement of approximately 5 per cent on the

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Table 2: Investment potential (£m) for a 2p SBR

	Urban area	2p Supplement revenue (FY 2006/07)	10 year loan	20 year loan	30 year loan
City regions*	Greater London	216.2	1,616	2,581	3,230
	Greater Manchester (10 authorities)	40.0	299	478	597
	West Midlands (7 authorities)	37.5	280	448	560
	West Yorkshire (5 authorities)	29.4	219	350	438
Core cities	Birmingham	15.1	113	180	226
	Leeds	13.0	97	155	194
	Manchester	11.3	84	135	169
	Sheffield	8.1	60	96	120
	Bristol	6.7	50	80	100
	Liverpool	6.6	49	79	99
	Newcastle	5.4	41	65	81
	Nottingham	5.4	40	64	81
Selected towns and cities with populations over 120,000	Milton Keynes	5.8	43	69	86
	Northampton	4.4	33	53	66
	Leicester City	4.2	31	50	63
	Swindon	4.2	31	50	62
	Reading	4.1	31	49	62
	Brighton and Hove	4.0	30	47	59
	Southampton	3.9	30	47	59

*Notes: The Greater Manchester city-region consists of Manchester, Trafford, Stockport, Bolton, Salford, Wigan, Rochdale, Oldham, Tameside and Bury.
The West Midlands city-region consists of Birmingham, Coventry, Solihull, Dudley, Sandwell, Wolverhampton and Walsall.
The West Yorkshire city-region consists of Leeds, Bradford, Wakefield, Kirklees and Calderdale.

national business rate, which was 43.3p in the pound during 2006/07, the year on which these calculations are based. Previous work by the Centre for Cities (Marshall and Finch 2006, Marshall and Harrison 2007) has argued that a 2p SBR delivers substantial resources for one or two key infrastructure investments, while limiting the overall demand on business.

However, the Lyons Inquiry’s final report recommended an upper limit of 4p for SBRs – which equates to approximately 10% on the uniform national rate. Table 3 illustrates what a 4p SBR could potentially contribute towards capital investment.

As the numbers in Table 3 make clear, SBRs could have a significant, positive impact on urban infrastructure investment. However, SBRs are not a simple answer to all of England’s cities’ investment needs. Our calculations show that the potential benefits of SBR decrease significantly in smaller urban areas with low tax bases, such as Middlesbrough, where a 4p SBR could raise approximately £3.3m annually.

“SBRs could help some cities to deliver one or two key capital projects – but larger-scale investment would require either greater local revenue-raising powers, additional central government investment, or both.”

Table 3: Investment potential (£m) for a 4p SBR

	Urban area	4p Supplement revenue (FY 2006/07)	10 year loan	20 year loan	30 year loan
City regions	Greater London	426.5	3,187	5,093	6,372
	Greater Manchester (10 authorities)	78.9	590	942	1179
	West Midlands (7 authorities)	74.0	553	883	1105
	West Yorkshire (5 authorities)	57.9	443	691	865
Core cities	Birmingham	29.8	223	356	445
	Leeds	25.7	192	306	383
	Manchester	22.3	166	266	333
	Sheffield	15.9	119	190	237
	Bristol	13.2	99	158	197
	Liverpool	13.0	97	155	194
	Newcastle	10.7	80	128	160
	Nottingham	10.6	80	127	159
Selected towns and cities with populations over 120,000	Milton Keynes	11.4	85	136	170
	Northampton	8.7	65	104	130
	Leicester City	8.3	62	99	124
	Swindon	8.2	61	98	122
	Reading	8.2	61	97	122
	Brighton and Hove	7.8	58	93	117
	Southampton	7.7	58	92	116

SBRs could help some cities to deliver one or two key capital projects – but larger-scale investment would require either greater local revenue-raising powers, additional central government investment, or both. And in some areas, SBRs will not be a viable policy option – for example, in those parts of the country with small or fragile business bases.

A number of stakeholders consulted by the Centre for Cities support SBR powers in principle – but express reservations regarding the potential impact on the business base in their own local area. Some city leaders and business representatives are concerned that as SBRs constitute an increase in business tax, they could make some cities less competitive than those with a lower tax burden. In addition, local stakeholders feared that SBRs would be unpopular, especially if levied at the same time as a local road-pricing scheme (see Section 3).

The next section considers the outstanding issues and challenges facing the implementation of SBR as a revenue-raising tool for English cities.

Case study: Birmingham (city)

A 2p SBR ‘top up’ could yield around £15m per year in Birmingham, which could support a 30-year loan of £230m. This could provide funding for the New Street Station redevelopment, or yield funds for additional transport improvements.

3. Challenges to implementing Supplementary Business Rates

A number of significant barriers still need to be overcome if SBRs are to be used to support investment in England's cities. These revolve around the need to secure business involvement and support, while preserving the integrity of the tax system and giving councils greater freedom to respond to local investment priorities.

"Should they be introduced, SBRs could be implemented differently in different cities."

However, it is important to note that should they be introduced, SBRs could be implemented differently in different cities. The size of an SBR, its timescale and its geographic scale, for instance, could vary from city to city. Ultimately it will be for local leaders, working with business stakeholders, to decide on the exact shape a particular SBR would take.

Below we consider six 'big issues' surrounding SBRs: business accountability and hypothecation; size; geographic scale; time limitations; additionality; and the cumulative impact on business of SBRs and other local financing tools.

Business accountability and hypothecation

The Government has stated that any local supplement must 'be subject to credible accountability for ratepayers' (HMT *et al* 2007: 79). Yet to date, local authorities and business organisations have disagreed on accountability – especially around the question of a business vote.

For and against a business vote

The Confederation of British Industry, while broadly supportive of SBRs in principle, recently stated that 'there will only be support for a supplementary business rate if businesses get to vote on each and every proposal to levy a supplement' (CBI 2007). Similar positions have been articulated by the British Chambers of Commerce (BCC 2007).

"The Government has stated that any local supplement must 'be subject to credible accountability for ratepayers'."

National business leaders insist that a business vote is necessary to ensure fiscal discipline, and to act as a 'check' on local taxation and expenditure plans. Their view is that a vote for business would guarantee the purpose of SBR, and make sure that questions regarding time limits, geographic scope and the cost of particular infrastructure projects were answered in a satisfactory manner.

Those opposed to a blanket vote for business – including Sir Michael Lyons (2007) and the CLG Select Committee (2007) – have said that such a system would undermine the integrity of the tax system, and more broadly, the powers of democratically elected politicians. Those with this stance feel that a vote for business could set an unhelpful precedent of 'taxation by referendum'.

Table 4: Views for and against a business vote on Supplementary Business Rates

Views for:	Views against:
• *Pragmatism*: business support is needed for SBR legislation to pass, and a positive vote would secure this • *Fiscal discipline*: a 'check' on local taxation and expenditure plans • *Accountability*: since an SBR is an extra tax on business, business requires a democratic vote • *Certainty*: it would guarantee SBR purpose, time limits, geographical scope, infrastructure project costs	• *Principle*: a vote would undermine the integrity of the tax system, and open all new tax decisions to referendums • *Democracy*: only elected officials, central or local, should have the power to impose or remove a tax • *Consultation*: involving businesses in setting priorities and selecting projects for SBRs provides sufficient accountability • *Hypothecation*: ring-fencing SBRs to specific infrastructure projects is adequate guarantee

Opponents of a business vote have expressed the view that more appropriate alternatives exist to provide security and certainty to ratepayers. For example, funding generated by SBRs could be hypothecated to specific investment projects following robust consultation with the local business community. The CLG Committee, for example, is broadly supportive of ring-fencing, but not of a business vote. (However, the Committee favours a business vote if an SBR above 4p (10 per cent) is proposed.)

"In order to protect small businesses and new start-ups, SBRs could be subjected to similar rate reliefs and exemptions as the existing national business rate."

Other accountability options include the presence of a third party intermediary during the planning of SBRs – such as regional development agencies (RDAs) in their newly focused strategic role outlined in the Sub-National Review – with reserve powers to 'strike down' a local SBR proposal if it does not have appropriate business buy-in.

The size of SBR

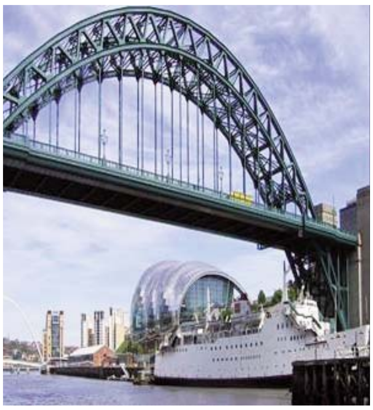
Another key issue for national and local business leaders is the upper limit for proposed SBRs. Many in the business community were concerned by the Lyons Report's recommendation that the upper limit be set at 4p, which would allow for a near 10 per cent increase on the national business rate. The CLG Committee (2007), meanwhile, has argued forcefully against the setting of an upper limit by government, stating that SBR rates should be dictated by agreed local investment needs.

As mentioned in Section 2, above, 4p may be an unrealistic upper limit, given the concerns of business leaders and the potential impacts on the health of local economies. SBRs of 2p (about 4.7 per cent) may be more achievable in the short term, while offering cities greater freedom to respond to local investment needs and circumstances, while also taking into consideration the concerns of business leaders (Marshall and Finch 2006).

In order to protect small businesses and new start-ups, SBRs could be subjected to similar rate reliefs and exemptions as the existing national business rate. These exemptions could be set as part of a national framework, or locally, as the CLG Committee has recommended (2007). Regardless, small businesses, especially in deprived areas, would receive substantial relief – ensuring that an SBR would not become a major new tax burden. This is important, as the Government recently stated that there must be 'real protection for small and medium sized enterprises' to prevent them being disproportionately affected by any local supplement (HMT *et al* 2007: 79).

Case study: Newcastle (city)

A 4p SBR in Newcastle could yield over £10m a year, and support a 30-year loan of up to approximately £160m – enough to fund a new Regional Conference and Exhibition Centre, critical to Newcastle City Council's efforts to attract greater business tourism to the area.



Geographical scale

The analysis in section 2 shows that individual local authorities, with a few high-profile exceptions (such as Birmingham and Leeds), do not have a large enough tax base to generate significant SBR revenues on their own. Using SBR across a sub-region, rather than a single local authority, could help to ensure that revenues collected are of a sufficient magnitude to underpin substantial infrastructure investment, and reduce the risk of business flight to adjacent districts unaffected by the SBR.

Case study: Leeds (city)

A 2p SBR 'top up' in Leeds City could raise around £13m per year and could underpin a 30-year loan of approximately £190m. This could provide significant funds towards the £374m Bus Rapid Transit network – the successor scheme to the cancelled Leeds Supertram.

Some of England's city-regions and sub-regions are more easily identifiable and coherent than others, with stronger political institutions and a greater history of cross-boundary political cooperation. Nevertheless, the city-regional scale – the functional economic area – is the best level at which to plan and execute strategic capital investment (Marshall and Finch 2006, Marshall and Harrison 2007). By pooling SBR revenues, groups of authorities will be better placed to maximise borrowing leverage and deliver infrastructure investments. This approach would fit well with the evolving 'Multi-Area Agreement' arrangements outlined in the Sub-National Review (HMT *et al* 2007).

Time limitations

Business leaders and central government are understandably keen for there to be prudent and enforceable limits on the amount of time over which a supplement can be levied across a local area.

"Setting out a clear time limit at the outset is critical, but an SBR's duration should be set locally, rather than from the top down."

In order to be effective in funding significant infrastructure projects, cities and sub-regions should be afforded a degree of flexibility. For some infrastructure projects, such as minor upgrades to existing services and facilities, a targeted, time-limited SBR will suffice. But for other larger-scale developments, a medium- to long-term revenue stream (for example, 10-30 years) will be required.

Government should not be overly prescriptive on this issue, and allow cities / sub-regions to develop innovative SBR proposals, so long as consultation with the business community is strong, and all proposals are consistent with existing fiscal rules. Setting out a clear time limit at the outset is critical, but an SBR's duration should be set locally, rather than from the top down. Establishing partnerships of trust and cooperation between local authorities and the local business community at the inception and throughout the lifetime of an SBR will be critical to securing business support and input to SBR programmes.

Additionality (ensuring SBR delivers new, additional investment resources)

In order to be effective and wholly additional to existing local government expenditure, SBRs should be raised and retained locally – outside of the equalisation system. Any form of equalisation measure would dampen the utility of SBRs as a revenue-raising tool, and would remove the in-built incentive for cities and city-regions to promote the growth of their business bases.

As the CLG Committee (2007) recommends, the Government could also consider alternative mechanisms to finance local growth in areas where SBR is unworkable. For example, the Government could choose to use specific grants, outside of the Revenue Support Grant (RSG) system, to assist such areas. However, any such grants should not be taken from the overall local government finance settlement – or they risk undermining SBRs as an incentive to promote economic growth. For SBRs to work, the Government will need to ensure that they are truly additional, and that no authority experiences grant reduction because of the extra revenue raised.

Case study: Milton Keynes (city)

A 4p SBR in Milton Keynes could yield around £11m per year. This could be used to support a 30-year loan of approximately £170m, a critical source of infrastructure funding for an area designated for massive housing growth.

Case study: Greater London (33 London boroughs)

A 4p SBR across Greater London could raise over £400m annually, and potentially lever in loans of around £6bn over 30 years. This could be used to finance business's contribution to Crossrail, and contribute to other high-profile infrastructure projects across the capital, including the proposed orbital rail route, the Cross-River Tram, or selected road improvement schemes.

Business contributions to local infrastructure

Business is also concerned about the potential cumulative impact of SBR, road user charging, and other new revenue-raising instruments currently under consideration.

If SBRs were introduced alongside road-user charging in a major city, for example, business leaders such as David Frost, Director General of the British Chambers of Commerce, contend that the policies would have a negative impact on competitiveness – and the city economy as a whole (BCC 2007). Some city leaders share this concern, and note that the cumulative tax burden must be taken into account. Businesses also note that an SBR could impact on existing and future Business Improvement Districts (BIDs) where businesses pay an additional levy for higher levels of local service. Exemptions and reliefs should be considered for businesses already subject to BID levies.

City leaders and business representatives need to work together to select the right tools to underpin local capital investment, with SBRs as an important option in the mix.

4. Moving forward: key questions

"City leaders and business representatives need to work together to select the right tools to underpin local capital investment, with SBRs as an important option in the mix."

The analysis presented in this paper estimates that Supplementary Business Rates in England's major cities and towns could support up to £11bn of new urban infrastructure investment over the next 30 years.

However, several challenges remain before SBRs can be successfully implemented. If progress is to be made, a number of questions must be addressed by the Government as it reviews SBRs as a policy option over the coming months. For example:

Business accountability

- Should business get a vote on SBR? If so, what kind? If not, how can sufficient accountability and business involvement throughout the lifetime of an SBR be guaranteed in order to reassure the business community and draw on its experience and expertise?

Hypothecation

- Should revenue generated by an SBR be ring-fenced to infrastructure projects, like road-user charging revenues (which are tied directly to transport improvements)?

Size of SBR

- Should SBR powers have a nationally-determined upper limit? If so, is 4p, as recommended by the Lyons Report, appropriate?

Geographical scale

- At what scale – local authority, sub-regional/city-regional, regional – should SBRs be used, and why?

Time limitations

- How long could an SBR reasonably remain in place? Are statutory limits required, or should the timeframe be decided on a project-by-project basis?

Additionality

- How can the additionality of SBRs be guaranteed? What if anything, should be done to assist areas unable to use SBRs?

Business contributions

- How can cities and business interests work together to craft the right package of contributions – SBRs, Business Improvement Districts, road-user charging, and so on – to underpin greater capital investment?

City Solutions: future work

This is the first paper in our *City Solutions* series, which focuses on new ways to finance local growth. The Centre for Cities and PwC will bring together city leaders, businesses and Whitehall policymakers to address the questions above, and to reach consensus on new tools to promote investment in local infrastructure.

Additional work in the *City Solutions* series will include a major survey of local authority and business leaders, as well as further briefing papers on specific powers and tools cities require to deliver on their own economic potential.

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5. Annex

Methodology and assumptions

1. The Centre for Cities calculated what a 2p and a 4p supplement based on projected figures for FY 2006/07 (the most recent year for which data is available) could raise in three metropolitan counties, the eight 'core cities', and selected towns and cities with populations over 120,000 in England. These calculations were based on the data tables in the Lyons Inquiry's final report (www.lyonsinquiry.org.uk/docs/final-supplementary.pdf).

2. PwC used these figures and ran an indicative Prudential Borrowings model to calculate the amount of prudential borrowing over 10, 20, and 30 years that a Local Authority could obtain from these SBR revenue amounts

Note: These calculations assume that the whole of the revenue stream is borrowed against. Local authorities may want to restrict this borrowing level reflecting their individual circumstances.

3. The Prudential Borrowings model assumes an arrangement fee of 35p per £1000 of drawdown amount as per the Public Works Loan Board (PWLB) website. PWLB funding is a recognised source of funding for local authority capital expenditure. Loans were calculated from PWLB as they represent a cheaper option for local authorities than capital markets.

Fixed interest rates for annuity payments, obtained from the PWLB website as of 25 June 2007, were used in the Prudential Borrowings model, and are set out below:

Loan term	Annuity fixed interest rate as at 25 June 2007
10	5.9%
20	5.6%
30	5.3%

(www.dmo.gov.uk/index.aspx?page=PWLB/Introduction)

4. There has been no account taken of any other local authority accounting implications of this borrowing, for example, the requirement to account for 4 per cent capital holding charge on assets on their balance sheet. And once borrowed, the full risk of repayment of a loan based on SBR projections will rest with the local authority (or authorities) in question. The calculations here present a base-case scenario, independent of external factors such as the economic cycle (which could impact on local business bases, and hence SBR take, over time).

5. Calculations have been run including and excluding the deflation factors noted by Lyons structured to account for possible 'pass-through' effects generated by SBRs.

The full breakdown of results follows this page.

Revenue generated from Supplementary Business Rate (10 year loan; £m)

10 year loan								
	2p supplement		2p supplement with 5 yr revenue stepdown		4p supplement		4p supplement with 5 yr revenue stepdown	
London and Core Cities	Revenue	Loan	Revenue	Loan	Revenue	Loan	Revenue	Loan
Greater London	219,201,756	1,638,147,688	216,184,526	1,615,599,199	438,403,512	3,276,295,376	426,498,461	3,187,326,051
Birmingham	15,319,837	114,488,847	15,108,966	112,912,951	30,639,675	228,977,694	29,807,640	222,759,698
Leeds	13,191,247	98,581,377	13,009,675	97,224,442	26,382,494	197,162,755	25,666,065	191,808,709
Manchester	11,441,029	85,501,574	11,283,547	84,324,677	22,882,058	171,003,148	22,260,685	166,359,478
Sheffield	8,164,694	61,016,730	8,052,310	60,176,858	16,329,388	122,033,461	15,885,956	118,719,586
Bristol	6,784,510	50,702,283	6,691,124	50,004,385	13,569,020	101,404,566	13,200,547	98,650,878
Liverpool	6,688,170	49,982,311	6,596,110	49,294,324	13,376,340	99,964,623	13,013,100	97,250,037
Newcastle	5,505,878	41,146,756	5,430,092	40,580,386	11,011,756	82,293,511	10,712,726	80,058,793
Nottingham	5,469,692	40,876,331	5,394,404	40,313,684	10,939,384	81,752,662	10,642,320	79,532,630
Selected Towns and Cities with Populations over 120k	Revenue	Loan	Revenue	Loan	Revenue	Loan	Revenue	Loan
Milton Keynes	5,852,242	43,735,218	5,771,688	43,133,219	11,704,484	87,470,435	11,386,643	85,095,135
Northampton	4,478,395	33,468,129	4,416,752	33,007,453	8,956,790	66,936,259	8,713,565	65,118,573
Leicester City	4,271,633	31,922,945	4,212,836	31,483,538	8,543,266	63,845,890	8,311,270	62,112,125
Swindon	4,210,915	31,469,188	4,152,954	31,036,026	8,421,831	62,938,375	8,193,132	61,229,254
Reading	4,195,220	31,351,893	4,137,474	30,920,346	8,390,440	62,703,786	8,162,594	61,001,036
Brighton and Hove	4,012,261	29,984,595	3,957,034	29,571,868	8,024,522	59,969,190	7,806,612	58,340,699
Southampton	3,980,168	29,744,757	3,925,382	29,335,332	7,960,336	59,489,514	7,744,169	57,874,048
Kingston upon Hull	3,575,418	26,719,964	3,526,204	26,352,174	7,150,836	53,439,929	6,956,652	51,988,743
Peterborough	3,425,681	25,600,939	3,378,527	25,248,552	6,851,361	51,201,879	6,665,309	49,811,468
Stoke-on-Trent	3,415,035	25,521,384	3,368,029	25,170,092	6,830,071	51,042,768	6,644,597	49,656,678
Oxford	3,363,565	25,136,736	3,317,267	24,790,738	6,727,130	50,273,472	6,544,452	48,908,272
Derby City	3,304,470	24,695,106	3,258,986	24,355,188	6,608,941	49,390,213	6,429,472	48,048,999
Cambridge	3,302,623	24,681,303	3,257,164	24,341,574	6,605,247	49,362,605	6,425,878	48,022,141
Doncaster	3,291,318	24,596,818	3,246,015	24,258,252	6,582,637	49,193,636	6,403,882	47,857,760
Portsmouth	3,107,316	23,221,725	3,064,545	22,902,087	6,214,632	46,443,450	6,045,871	45,182,257
Plymouth	3,018,489	22,557,895	2,976,940	22,247,395	6,036,977	45,115,791	5,873,040	43,890,651
Norwich	2,882,164	21,539,106	2,842,492	21,242,629	5,764,328	43,078,213	5,607,795	41,908,404
Luton	2,828,837	21,140,581	2,789,899	20,849,589	5,657,674	42,281,162	5,504,037	41,132,997
Stockton-on-Tees	2,737,963	20,461,459	2,700,276	20,179,815	5,475,926	40,922,919	5,327,225	39,811,638
Bournemouth	2,685,785	20,071,523	2,648,817	19,795,246	5,371,571	40,143,046	5,225,703	39,052,943
Warwick	2,580,470	19,284,473	2,544,950	19,019,030	5,160,939	38,568,946	5,020,792	37,521,588
Colchester	2,281,094	17,047,168	2,249,696	16,812,520	4,562,188	34,094,337	4,438,300	33,168,489
Blackpool	1,962,823	14,668,647	1,935,805	14,466,739	3,925,645	29,337,294	3,819,042	28,540,626
Southend-on-Sea	1,840,745	13,756,333	1,815,408	13,566,982	3,681,490	27,512,665	3,581,518	26,765,546
Blackburn with Darwen	1,716,076	12,824,649	1,692,455	12,648,122	3,432,151	25,649,297	3,338,950	24,952,778
Middlesbrough	1,696,873	12,681,144	1,673,516	12,506,592	3,393,746	25,362,287	3,301,588	24,673,562
WEST MIDLANDS TOTAL	38,025,844	284,176,321	37,502,433	280,264,740	76,051,688	568,352,641	73,986,469	552,918,761
WEST YORKSHIRE TOTAL	29,759,655	222,401,092	29,350,024	219,339,824	59,519,310	444,802,183	57,903,035	432,723,373
GREATER MANCHESTER TOTAL	40,549,289	303,034,634	39,991,143	298,863,476	81,098,578	606,069,268	78,896,308	589,611,176

Revenue generated from Supplementary Business Rate (20 year loan; £m)

20 year loan								
	2p supplement		2p supplement with 5 yr revenue stepdown		4p supplement		4p supplement with 5 yr revenue stepdown	
London and Core Cities	Revenue	Loan	Revenue	Loan	Revenue	Loan	Revenue	Loan
Greater London	219,201,756	2,617,342,638	216,184,526	2,581,315,898	438,403,512	5,234,685,275	426,498,461	5,092,534,962
Birmingham	15,319,837	182,924,008	15,108,966	180,406,128	30,639,675	365,848,016	29,807,640	355,913,243
Leeds	13,191,247	157,507,925	13,009,675	155,339,887	26,382,494	315,015,849	25,666,065	306,461,447
Manchester	11,441,029	136,609,731	11,283,547	134,729,349	22,882,058	273,219,462	22,260,685	265,800,061
Sheffield	8,164,694	97,489,189	8,052,310	96,147,287	16,329,388	194,978,379	15,885,956	189,683,650
Bristol	6,784,510	81,009,330	6,691,124	79,894,267	13,569,020	162,018,661	13,200,547	157,618,969
Liverpool	6,688,170	79,858,999	6,596,110	78,759,770	13,376,340	159,717,998	13,013,100	155,380,782
Newcastle	5,505,878	65,742,032	5,430,092	64,837,118	11,011,756	131,484,064	10,712,726	127,913,553
Nottingham	5,469,692	65,309,962	5,394,404	64,410,995	10,939,384	130,619,925	10,642,320	127,072,880
Selected Towns and Cities with Populations over 120k	Revenue	Loan	Revenue	Loan	Revenue	Loan	Revenue	Loan
Milton Keynes	5,852,242	69,877,735	5,771,688	68,915,894	11,704,484	139,755,470	11,386,643	135,960,345
Northampton	4,478,395	53,473,544	4,416,752	52,737,500	8,956,790	106,947,087	8,713,565	104,042,889
Leicester City	4,271,633	51,004,733	4,212,836	50,302,672	8,543,266	102,009,466	8,311,270	99,239,352
Swindon	4,210,915	50,279,744	4,152,954	49,587,662	8,421,831	100,559,488	8,193,132	97,828,748
Reading	4,195,220	50,092,337	4,137,474	49,402,835	8,390,440	100,184,675	8,162,594	97,464,113
Brighton and Hove	4,012,261	47,907,744	3,957,034	47,248,311	8,024,522	95,815,487	7,806,612	93,213,573
Southampton	3,980,168	47,524,543	3,925,382	46,870,386	7,960,336	95,049,086	7,744,169	92,467,984
Kingston upon Hull	3,575,418	42,691,695	3,526,204	42,104,060	7,150,836	85,383,391	6,956,652	83,064,765
Peterborough	3,425,681	40,903,778	3,378,527	40,340,753	6,851,361	81,807,557	6,665,309	79,586,035
Stoke-on-Trent	3,415,035	40,776,669	3,368,029	40,215,393	6,830,071	81,553,338	6,644,597	79,338,719
Oxford	3,363,565	40,162,100	3,317,267	39,609,283	6,727,130	80,324,199	6,544,452	78,142,958
Derby City	3,304,470	39,456,488	3,258,986	38,913,384	6,608,941	78,912,976	6,429,472	76,770,058
Cambridge	3,302,623	39,434,433	3,257,164	38,891,633	6,605,247	78,868,866	6,425,878	76,727,146
Doncaster	3,291,318	39,299,449	3,246,015	38,758,506	6,582,637	78,598,897	6,403,882	76,464,508
Portsmouth	3,107,316	37,102,400	3,064,545	36,591,700	6,214,632	74,204,801	6,045,871	72,189,735
Plymouth	3,018,489	36,041,770	2,976,940	35,545,668	6,036,977	72,083,539	5,873,040	70,126,077
Norwich	2,882,164	34,414,004	2,842,492	33,940,308	5,764,328	68,828,008	5,607,795	66,958,952
Luton	2,828,837	33,777,262	2,789,899	33,312,331	5,657,674	67,554,524	5,504,037	65,720,049
Stockton-on-Tees	2,737,963	32,692,199	2,700,276	32,242,203	5,475,926	65,384,398	5,327,225	63,608,854
Bournemouth	2,685,785	32,069,180	2,648,817	31,627,760	5,371,571	64,138,360	5,225,703	62,396,653
Warwick	2,580,470	30,811,675	2,544,950	30,387,563	5,160,939	61,623,349	5,020,792	59,949,939
Colchester	2,281,094	27,237,032	2,249,696	26,862,124	4,562,188	54,474,063	4,438,300	52,994,795
Blackpool	1,962,823	23,436,761	1,935,805	23,114,163	3,925,645	46,873,522	3,819,042	45,600,649
Southend-on-Sea	1,840,745	21,979,115	1,815,408	21,676,580	3,681,490	43,958,229	3,581,518	42,764,523
Blackburn with Darwen	1,716,076	20,490,521	1,692,455	20,208,477	3,432,151	40,981,042	3,338,950	39,868,182
Middlesbrough	1,696,873	20,261,237	1,673,516	19,982,348	3,393,746	40,522,473	3,301,588	39,422,066
WEST MIDLANDS TOTAL	38,025,844	454,041,358	37,502,433	447,791,649	76,051,688	908,082,716	73,986,469	883,423,307
WEST YORKSHIRE TOTAL	29,759,655	355,340,281	29,350,024	350,449,155	59,519,310	710,680,562	57,903,035	691,381,701
GREATER MANCHESTER TOTAL	40,549,289	484,172,138	39,991,143	477,507,690	81,098,578	968,344,277	78,896,308	942,048,437

Revenue generated from Supplementary Business Rate (30 year loan; £m)

30 year loan	2p supplement		2p supplement with 5 yr revenue stepdown		4p supplement		4p supplement with 5 yr revenue stepdown	
London and Core Cities	Revenue	Loan	Revenue	Loan	Revenue	Loan	Revenue	Loan
Greater London	219,201,756	3,274,827,103	216,184,526	3,229,750,336	438,403,512	6,549,654,205	426,498,461	6,371,795,299
Birmingham	15,319,837	228,875,078	15,108,966	225,724,698	30,639,675	457,750,155	29,807,640	445,319,737
Leeds	13,191,247	197,074,396	13,009,675	194,361,741	26,382,494	394,148,793	25,666,065	383,445,499
Manchester	11,441,029	170,926,513	11,283,547	168,573,773	22,882,058	341,853,025	22,260,685	332,569,848
Sheffield	8,164,694	121,978,772	8,052,310	120,299,779	16,329,388	243,957,543	15,885,956	237,332,763
Bristol	6,784,510	101,359,122	6,691,124	99,963,951	13,569,020	202,718,243	13,200,547	197,213,335
Liverpool	6,688,170	99,919,824	6,596,110	98,544,465	13,376,340	199,839,647	13,013,100	194,412,909
Newcastle	5,505,878	82,256,631	5,430,092	81,124,400	11,011,756	164,513,262	10,712,726	160,045,828
Nottingham	5,469,692	81,716,025	5,394,404	80,591,234	10,939,384	163,432,049	10,642,320	158,993,976
Selected Towns and Cities with Populations over 120k	Revenue	Loan	Revenue	Loan	Revenue	Loan	Revenue	Loan
Milton Keynes	5,852,242	87,431,236	5,771,688	86,227,777	11,704,484	174,862,471	11,386,643	170,113,999
Northampton	4,478,395	66,906,261	4,416,752	65,985,321	8,956,790	133,812,522	8,713,565	130,178,781
Leicester City	4,271,633	63,817,278	4,212,836	62,938,857	8,543,266	127,634,556	8,311,270	124,168,580
Swindon	4,210,915	62,910,169	4,152,954	62,044,234	8,421,831	125,820,338	8,193,132	122,403,628
Reading	4,195,220	62,675,685	4,137,474	61,812,978	8,390,440	125,351,371	8,162,594	121,947,396
Brighton and Hove	4,012,261	59,942,315	3,957,034	59,117,232	8,024,522	119,884,630	7,806,612	116,629,107
Southampton	3,980,168	59,462,854	3,925,382	58,644,370	7,960,336	118,925,707	7,744,169	115,696,225
Kingston upon Hull	3,575,418	53,415,980	3,526,204	52,680,729	7,150,836	106,831,959	6,956,652	103,930,888
Peterborough	3,425,681	51,178,932	3,378,527	50,474,474	6,851,361	102,357,865	6,665,309	99,578,289
Stoke-on-Trent	3,415,035	51,019,893	3,368,029	50,317,623	6,830,071	102,039,786	6,644,597	99,268,848
Oxford	3,363,565	50,250,942	3,317,267	49,559,256	6,727,130	100,501,883	6,544,452	97,772,708
Derby City	3,304,470	49,368,079	3,258,986	48,688,546	6,608,941	98,736,157	6,429,472	96,054,931
Cambridge	3,302,623	49,340,483	3,257,164	48,661,330	6,605,247	98,680,967	6,425,878	96,001,239
Doncaster	3,291,318	49,171,590	3,246,015	48,494,762	6,582,637	98,343,180	6,403,882	95,672,625
Portsmouth	3,107,316	46,422,637	3,064,545	45,783,646	6,214,632	92,845,273	6,045,871	90,324,017
Plymouth	3,018,489	45,095,572	2,976,940	44,474,849	6,036,977	90,191,145	5,873,040	87,741,962
Norwich	2,882,164	43,058,907	2,842,492	42,466,217	5,764,328	86,117,814	5,607,795	83,779,245
Luton	2,828,837	42,262,213	2,789,899	41,680,490	5,657,674	84,524,427	5,504,037	82,229,127
Stockton-on-Tees	2,737,963	40,904,579	2,700,276	40,341,543	5,475,926	81,809,158	5,327,225	79,587,592
Bournemouth	2,685,785	40,125,056	2,648,817	39,572,750	5,371,571	80,250,113	5,225,703	78,070,883
Warwick	2,580,470	38,551,661	2,544,950	38,021,012	5,160,939	77,103,323	5,020,792	75,009,546
Colchester	2,281,094	34,079,057	2,249,696	33,609,972	4,562,188	68,158,115	4,438,300	66,307,249
Blackpool	1,962,823	29,324,147	1,935,805	28,920,511	3,925,645	58,648,293	3,819,042	57,055,672
Southend-on-Sea	1,840,745	27,500,335	1,815,408	27,121,804	3,681,490	55,000,671	3,581,518	53,507,102
Blackburn with Darwen	1,716,076	25,637,802	1,692,455	25,284,908	3,432,151	51,275,605	3,338,950	49,883,192
Middlesbrough	1,696,873	25,350,921	1,673,516	25,001,975	3,393,746	50,701,842	3,301,588	49,325,010
WEST MIDLANDS TOTAL	38,025,844	568,097,934	37,502,433	560,278,279	76,051,688	1,136,195,868	73,986,469	1,105,341,941
WEST YORKSHIRE TOTAL	29,759,655	444,602,845	29,350,024	438,483,053	59,519,310	889,205,690	57,903,035	865,058,896
GREATER MANCHESTER TOTAL	40,549,289	605,797,658	39,991,143	597,459,081	81,098,578	1,211,595,316	78,896,308	1,178,693,882