Centre for Policy Studies

Pointmaker

HOW TO PRIVATISE THE HIGH STREET

THE EXPANSION OF PROPERTY OWNER BIDS

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SUMMARY

- Business Improvement Districts (BIDs) are an internationally successful initiative which were introduced in the UK in 2003.
- BIDs are business-led and business-funded bodies formed to improve a defined commercial area. They allow local regeneration to be directed by local interests, while costing the taxpayer little or nothing.
- There are 41 BIDs in London alone, with over 7.6% of London firms being included in BID areas along with over 11% of the total London workforce.
- Areas in London with BIDs weathered the economic downturn better than those without. Turnover generated by businesses in BID areas grew by 4% between 2005 and 2012, and total employment fell only slightly – while in the rest of London during this period turnover growth was negligible and employment declined sharply.
- BIDs in London allow all local interested parties, both property owners and business tenants, to formally contribute to projects. BIDs outside London however cannot receive funding from property owners. This is problematic, not least as tenants naturally tend to favour more short-term improvements to their local area.
- In contrast, property owners typically have much deeper, and consequently long-term, ties to a local area and will therefore favour longer-term redevelopments.
- Property Owner BIDs should therefore be rolled out across the rest of the UK in order to bring balance to future regeneration projects, ensuring that they are undertaken fully under the auspices of the local community and not just by one interested party.
- Property Owner BIDs can be implemented quickly with secondary legislation, and can become a rare example of localism in practice.
- The Government must continue to promote BIDs, and improve their potential for locally-led regeneration.

INTRODUCTION

"*Our governing mission is to break out of the traditional top-down, 'Westminster knows best approach', and devolve power and decision-making to people and their local communities.*"

– Labour Manifesto 2015

"*We will deliver more bespoke Growth Deals with local councils, where locally supported, and back Local Enterprise Partnerships to promote jobs and growth.*"

– Conservative Manifesto 2015

The concept of localism now enjoys widespread support among the major political parties. Localism is seen as a 'good thing' – local solutions to local problems, unleashing the entrepreneurial spirit and lifting the yoke of central government, are all sentiments often repeated by politicians of all stripes.

For localism to be meaningful, it is communities themselves that must be allowed to set the agenda. Local solutions cannot be handed down from the centre.

There is evidence that businesses are shaping up to take the initiative, but are being constrained by restrictive legislation and a lack of suitable means to work together.

In this regard Business Improvement Districts (BIDs) provide a solution. BIDs were first trialed in Toronto in 1970 and more recently were introduced in the UK through the Local Government Act 2003. The BIDs model has already been proven in Germany, and there are also many examples in the US, where Business-led improvements have transformed previously run down neighbourhoods – such as Times Square in New York.

BIDs are business-led and business-funded bodies formed to improve a defined commercial area. The initiative is based on the idea that sales in a commercial district, such as a high street, can be boosted by making it a more attractive environment to shoppers. Local businesses therefore have a strong incentive to improve the district, yet in isolation are unable to do so. BIDs address this issue by providing a framework for businesses to come together to organise and fund local improvements. BIDs allow spaces to be tailored by local communities according to local needs and desires – thereby ensuring that improvements made to an area will be in the local interest.

The method is simple, but the results can be spectacular and moreover cost- and risk-free for the Exchequer.

1. BIDS – HOW THEY WORK NOW AND WHAT NEEDS TO CHANGE

In the UK BIDs require a majority vote of local business rate payers, within a proposed Business Improvement District. Participation is restricted to local tenants, although property owners are permitted to contribute also for BIDs in London and Scotland. A BID can only be formed following consultation and a ballot in which local businesses vote on a BID Proposal or Business Plan for the area. The ballot is run by the local authority or outsourced by the local authority to a third party.

For a BID to go ahead the ballot must be won on two counts: straight majority and majority of rateable value – with no minimum turnout threshold. This ensures that the interests of large and small businesses are protected. Each business rate payer then pays an additional recurring charge to fund the BID – usually between 1% and 4% of the rateable value.[1]

BIDs exist in some form in many countries,

[1] Gov.uk, *Business Improvement Districts,* Nov 2014.

including South Africa, New Zealand, Germany and the US.[2] There are 79 BIDs in New York City alone, with almost 1000 across the rest of the US.[3]

When BIDs were first introduced in the UK a fundamental change was made to the regulative framework. In other countries property taxes are paid by property owners, whereas in the UK they are paid by occupiers. This means that in the UK there is no direct financial link between property owners and local authorities. Therefore when introducing BIDs in 2003 the Government legislated that BID fees would be levied instead on business rate payers. Consequently there is no statutory requirement for property owners to be involved in BIDs or for them to make a financial contribution.[4]

The first BIDs were set up in 2004 and were intended to improve the local trading environment. 'Improvement' in practice has meant anything from general maintenance of existing infrastructure and beautification of high streets with hanging baskets and pleasant signage, right through to the facilitation of major infrastructural change.

Newcastle upon Tyne provides an example of the latter. With a small team the Newcastle BID – NE1 Ltd – galvanised local business tenants and stakeholders and achieved great success in improving the local area. This improvement included the building of a marina on the Tyne, the regeneration of the central rail station area and the introduction of a new youth employment scheme.

The success of BIDs funded by tenants has demonstrated what can be achieved by local business communities working together to tackle specific local issues and to improve their trading environment. It is a local approach based on local knowledge that could never as effectively be delivered by central government.

However, despite such successes, in their current form BIDs are limited by their failure to engage with all interested parties. While tenants are vital in the process of local regeneration due to their understanding of local needs, property owners – a key stakeholder and source of information – are excluded.

While tenants will have a greater understanding of how best to direct regeneration than central government, there is a danger that they will mostly favour short-term improvements. In contrast property owners typically have much longer-term considerations. An example of a development undertaken with local property-owner support is Liverpool One, an open air shopping, residential and leisure complex in Liverpool – the largest of its kind in the UK. The development was primarily achieved by property group Grosvenor, and has since received over 60 awards and created 5,000 new jobs.

The Portas Review, commissioned by the Government in May 2011 emphasised the problem of disconnection between property owners, retailers and local councils and recommended that landlords as well as business tenants should have a stake in the process, with BIDs being allowed to also levy a charge on property owners.[5]

2. IMPLEMENTATION

Widespread implementation of Property Owner BIDs (PO BIDs) would not be difficult. The Department for Communities and Local Government has already permitted PO BIDs in

[2] House of Commons, *Business Improvement Districts*, Aug 2014.

[3] NYC BID Association, *NYC BIDS*, 2015.

[4] DCLG, *The Role of Property Owners in Business Improvement Districts*, Dec 2008.

[5] Mary Portas, *The Portas Review*, December 2011.

London. All that is needed is minor secondary legislation to extend the scheme to other willing cities.

One option is to set up a pilot scheme. The team responsible for the Newcastle "NE1 Ltd" BID have already volunteered to trial a PO-BID in the city. This trial could be undertaken at little or no risk to HMG and without troubling the balance books because all money to finance the schemes will come from the seed funding. The Treasury will simply need to provide £2-3 million to finance the administration of the scheme. The taxpayer can in due course enjoy the benefits of a greater tax yield, while Newcastle enjoys the benefits of improved city centre streets at no cost to the tax or rate payer.

3. BIDs IN LONDON

As of July 2015 there are 41 BIDs in London, with London Mayor, Boris Johnson, committing to support the development of a further 9 by 2016. Over 7.6% of London firms are included in BID areas along with over 11% of the total London workforce. [6]

The levy paid by BID participants varies from as little as £130 per year up to £11,000, depending on the scale and nature of the project. On average the annual cost is approximately £3,000. BID areas annually raise on average £638,000 from their levy, with this figure again varying greatly from £20,000 in the smallest BID to £2.3 million in the largest.

The differences in levies raised reflects the diversity among BIDs in London. BIDs have been used in industrial estates, high streets and in town and city centres. They have been set up with a variety of different aims in mind, such as raising standards of management and maintenance of the public realm, reducing crime, improving public transport, building commercial activity, and creating more local jobs.

Areas with BIDs weathered the economic downturn better than those without. Turnover generated by businesses in BID areas grew by 4% between 2005 and 2012, and total employment fell only slightly – while in the rest of London during this period turnover growth was negligible and employment declined sharply.

A key distinction of BIDs in London relative to those outside the city is the opportunity for the involvement and contribution of property owners. In eight of the BIDs set up in London, property owners have been given the opportunity to provide additional funding towards the BID on top of the levy revenue collected from tenant businesses.

Furthermore a survey of 22 London BIDs, conducted on behalf of the Greater London Authority, found that over a quarter included local property owners on their board.

4. BIDs IN SCOTLAND

There are currently 45 BIDs, either completed or in development, in Scotland. BIDs have been set up across the country in a variety of areas for a great variety of reasons. Such reasons include both general aims of increasing footfall on high streets and improving security, and more specific targets such as increasing the visitor spend of tourists and training local businesses in the use of social media.

As in London, BIDs in Scotland are intended to allow the collaboration of all local interested parties, including both business tenants and property owners. Involvement of property owners has provided a boost to the funds available for the achievement of BID goals. A report

[6] GLA, *London's Business Improvement Districts*, 2013.

commissioned by the Scottish Government in 2013 estimated that the additional funding provided to BIDs, from sources including property owners, increased total available funds by an average of 50%.[7]

5. APPROVAL METHOD

There are two issues that must be addressed in order to establish a process of approval for PO BIDs.

1. A voter list of property owners and an electoral system must be established that is appropriate and from which a sound and clear mandate can be derived.

2. In the event that a vote is successful, a process is required to establish a governing body.

Currently, BIDs are funded by tenant retailers and typically cover city centres. As noted, tenant-funded BIDs have been successful, especially in areas where big infrastructure investments are not required – for example, supporting and encouraging shops to stay open into the evenings.

PO BIDs could be run by existing BID companies, and would run parallel to them. These could be established by a BID company approaching retail property owners in a defined area and asking them to vote on whether to form a PO BID within the existing BID.

PO BIDs would then focus on small areas within the larger BID area. A BID company would therefore run both the geographically larger tenant-financed BID but then also take on new responsibilities for governance of the smaller PO BIDs.

How each BID would configure itself and work with, and for, its property owning members is a matter for each BID. However, the idea is that the BID would establish a structure by which clear decisions around regeneration and investment could be made.

An open-ended approach will encourage businesses to develop strategies tailored to their own needs. For example, it is possible to imagine a situation where the BID chief executive would be first among equals, applying local knowledge and intelligence and offering parameters within which solutions to problems could be articulated, debated and carried out. Dr Julie Grail, chief executive of British BIDs, frames the potential relationship as a parental one, with the relevant BID CEO leading the group and guiding it in its decisions. In any approach, the goal will be to develop an appropriate constitution and a way of working that suits the local circumstances facing each BID and the companies involved.

There are a number of important questions that would need to be addressed in the process of setting up PO BIDs:

- What constitutes an owner – a freeholder, a leaseholder, people with a common hold interest?

- How is a property, especially one with multiple leaseholders, defined and who gets the vote? Should it be one vote for each hereditament, or should votes be related to market values of properties?

- How should situations in which a PO-BID is created within an extant tenant-funded BID be managed?

[7] BIDs Scotland, *The National Report on BIDs in Scotland*, Mar 2013.

- How should a project proceed in the case of an absent landlord? Many property owners will reside outside the UK. This may present problems in identifying the property owner, making contact, engaging them and collecting payment.

- What if one entity owned many properties? This might tend towards an overly powerful voting block. At the same time, they would also be liable for more than one levy and may well demand a greater influence.

It ought not be difficult, however, to address these questions. Legislation introduced in 2014 that established PO BIDS in London will provide a helpful framework for rolling them out across the rest of the country.[8]

PO BIDs already exist in London. If these were to be directly replicated outside the capital, it is unlikely there would need to be any legislative change and expansion of the concept could be dealt with by simple administrative fiat. If HMG and BIDs outside the capital felt the London model needed some adaptions, then legislation would be needed, but again it is likely to be simple.

6. CONCLUSION

The new Government and the main opposition parties are cheerleaders for localism. Indeed, while many governments have made this claim, few have relinquished central control.

PO BIDs are a simple way for central government to empower businesses and communities to build and sustain a new, market-sensitive business model that reaches out beyond partisan politics and that can deliver real and locally appropriate benefits to all.

This will mean that high streets can be revamped at little cost to the tax payer. Vacant properties filled, jobs created, both through regeneration work itself and through increased business and commercial activity on the ground. The model already exists in London. All that is needed is an extension of the model across the country.

[8] Gov.uk, *The Business Improvement Districts (Property Owners) (England) Regulations 2014*, 2014.

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