

# LYONS INQUIRY

## into Local Government

### REPORT ON BUSINESS ENGAGEMENT EVENTS - 2006

*During August I held four events across the country to consult with businesses on specific issues related to my Inquiry into Local Government. I am very grateful to the 150 delegates from business who gave up their time to attend the events and contribute so fully to this debate.*

*I would also like to extend my thanks to the CBI, BCC, SBS and FSB in London, Newbury, Leeds and Coventry who successfully recruited a wide range of business representatives to each of the events.*



*During the four events I was able to debate with business the role for local government in 'place-shaping': exploring what this means for businesses and their views and experience of the need for local choice and priority setting to reflect the different needs and aspirations of the communities they work within.*

*Three key themes emerged across the four events: firstly, businesses' desire for economic prosperity to be raised higher up the local government agenda; secondly, a clear call to see stronger leadership from local government across the area, championing the promotion of economic prosperity and finally businesses identified a real need for local government officials and elected members to develop the appropriate skills, expertise and confidence to carry out this role successfully.*

*I was heartened by the strong support from businesses for local government developing a place-shaping role, promoting prosperity in their area. Several shining examples of where local government are already taking on this role were identified at the events including Manchester, Birmingham and Leeds as well as some smaller areas such as Rugby. There was also wider recognition that place-shaping was important for both urban and rural areas. However, these examples were seen as exceptions rather than the norm. Businesses called for local government to raise its game to meet the challenges of this new role.*

*There was clear support for the debate around funding to be re-cast – not to be seen as about taxation – but about investment. I have always been clear that this debate is not about taxing more, but about exploring what is the right system to ensure the best stewardship of public resources. There was a strong appetite among businesses to raise money for economic development and increase investment at a local level based on three key principles: that the money is spent locally, it is transparent what the money is spent on and there is appropriate engagement of the business sector in how it's used. BIDs were seen to offer these qualities however, they were often seen by businesses to be too small scale, time limited and over bureaucratic to make a real difference.*

*I am grateful to OPM for producing the attached summary of the main points of debate from the events. I am continuing to consider these issues in detail as I move to producing my final report to Ministers this December.*

*Michael Lyons*

## Lyons Inquiry: Report of Business Round-Tables

### Summary

Sir Michael Lyons consulted with 150 businesses at four business round-table discussions on business expectations of local authorities, and business views on their place-shaping role. The business meetings identified some key messages which will feed into Sir Michael's thinking and analysis as he develops his final report to Ministers in December 2006.

### Key Messages

- Overall, businesses were enthusiastic and very supportive of a role for local government in place-shaping. They were also clear that local government has an important role to play in promoting economic development.
- However, businesses were clear that there needed to be changes made in order to achieve this role successfully. In particular they argued that local government needed to overcome two main barriers: firstly, economic development needs to be raised up the agenda and be seen as a priority within local government; secondly, businesses questioned the skills base of some officials and councillors. Many felt that there was room for both officials and councillors to improve their knowledge and skills related to understanding and working with businesses, particularly in the planning field.
- For businesses, close collaboration between businesses and local authorities was an essential requirement for successful economic development. Businesses were keen for local government to have a stronger role in place shaping and in economic development, provided that this was done with greater transparency to, and involvement of, businesses.
- Despite this, some shining examples were cited where local authorities were taking on the role of place-shaping and working effectively with businesses in promoting prosperity within their area; these included both large cities and smaller towns.
- In terms of taxation, businesses were in general agreement that business rates were attractive as they were felt to be predictable with increases at a steady and manageable rate because of the RPI cap. This was a particular concern for small businesses.
- However, a majority of businesses recognised that big challenges around infrastructure could not be solved in the current system and showed an interest in developing the right funding mechanisms for achieving this. On balance, businesses supported the principle of mechanisms, which provided better incentives for local authorities and local businesses to collaborate on local economic development.
- Many accepted that, given certain safe guards, other local funding options and flexibilities should be considered. These ranged from extending schemes such as Business Improvement Districts (BIDs) and the Local Authority Business Growth Incentive scheme (LABGI), to congestion charging – although the latter was not actively advocated by businesses.

## **Background**

Sir Michael Lyons met around 150 businesses in four separate round-table discussions. These were held in Leeds, Newbury, London and Coventry between 18 and 30 August 2006.

Our thanks go to the Leeds Chamber of Commerce and Industry, Thames Valley Chambers of Commerce Group, London First, and Coventry and Warwickshire Chamber of Commerce for all their assistance in arranging these meetings, and to the CBI, British Chambers of Commerce and DTI Small Business Service for their help with promoting the round-tables. Membership of the events was determined by these organisations in each area.

Businesses ranged in size from micro to multinational, and came from a wide range of sectors. Apart from individual businesses, representatives from the CBI, BCC, SBS and the British Retail Consortium attended events. We are extremely grateful that so many business people agreed to attend the meetings and discuss the issues surrounding the form, function and funding arrangements for local government.

The events were facilitated by independent facilitators from the Office of Public Management.

This report presents the key messages and themes from the debate across the four meetings. It is important to note that it has not been possible to include every comment made. The report intends to give a flavour of the views of the majority of attendees across the four events.

## **Aims and Objectives**

The events were held as part of a wide ranging programme of stakeholder engagement. Sir Michael has engaged in dialogue with the business community throughout the Inquiry including the CBI, BCC, SBS, Institute of Directors, the Federation of Small Businesses and national business sector organisations. He has also met regional and local Chambers of Commerce and individual businesses outside of these round-table events.

The round-table events were focused on testing the thinking and analysis in Sir Michael's report published in May 2006 '*National Prosperity, Local Choice and Civic Engagement*'. They were also intended to inform Sir Michael's current thinking and analysis – feeding into his conference '*National Prosperity – The Local Contribution*' (held on the 14<sup>th</sup> September 2006) and his final report and recommendations to Ministers in December 2006.

## **1 - Local Authorities as Place Shapers**

In all four events, businesses supported a stronger role for local government in taking the lead on economic development and wider place shaping. Businesses recognised that local authorities knew their areas and communities well, and were in a good position to build up a similar knowledge and expertise in relation to local business development.

More generally, businesses felt that authorities' place shaping activities affected businesses in many ways. This included efforts to make city centres more attractive to business and customers, dealing with crime and nuisance, planning and regeneration, transport, and education and skills development. Businesses recognised that local authorities were not directly responsible for some of the services needed to improve areas, but were the best placed local agency to orchestrate economic development.

However, at present, businesses felt that many local authorities would need to overcome a number of barriers (see next section). But there were many examples of good local authority leadership which supported the argument for authorities' place shaping role. These included authorities where there was an active partnership with the local chamber of commerce, good business involvement in local strategic partnerships and other partnership arenas, a more strategic and long-term vision for economic development (which often extended to sub-regional and regional dimensions), and some clear success stories which demonstrate improvements (for example some Business Improvement Districts; and infrastructure investments such as transport improvement, park and ride schemes and others).

The common ingredients of many of the examples of successful place shaping were thought to include:

1. close consultation and collaboration between the local authority and businesses
2. a shared view of local needs and priorities
3. leadership and the importance of a longer-term view
4. commitment from both sides, and a good level of trust
5. a shared view that local infrastructure improvements were dependent on local authorities and other partners brokering additional resources

**Business Quotes:**

*“there is a clear role for local authorities in promoting economic development – but they add most value where they have a long-term vision and invest in the wider infrastructure” (Newbury, medium-sized business)*

*“(a previous leader) had a sound understanding of business, an open and clear mind, and knew how everything fitted in, and he didn’t let his political views get in the way of progress” (Leeds, medium business)*

*“there needs to be more alignment between the economic strategy of the region and that of the local authority to make it more streamlined and work more effectively” (Coventry, medium business)*

*“X authority has critical mass and the capacity to make a difference. It can leverage in external funding; across the authority, we can see a political drive to put local government resources where [their impact] can be maximised by leveraging in funding from elsewhere” (Coventry, large business)*

*“it is the larger local authorities who seem most successful in supporting economic growth; the focus therefore should be on making sure the ‘major’ local authorities, where most benefit could be generated, can take control of their own destiny, to make sure they are better able to respond to the challenge of economic growth” (London, large business)*

## **2 - Current Barriers to Place-Shaping**

Businesses felt that local authorities' relations with businesses and their support to economic development was hampered by a number of problems and barriers. These can be grouped into two clusters:

### **Systems Barriers**

Many businesses found local authority structures and processes too complicated and time consuming. Examples ranged from planning processes to the registering of new drivers by a local chauffeuring business. Improvements through stream-lining, better communications, and the creation of business one-stop shops would be welcomed.

Local authority priorities, according to businesses, tended to focus either up (to central government targets) or down (to local communities, and particularly, voters). Business felt that their interests were not assigned sufficient importance, and too often were squeezed out altogether. The business view on local government priorities was that central government is over-burdening local authorities with targets, while paradoxically there is an absence of appropriate targets for business development. Similarly, residents' interests and priorities rarely reflected business needs or opportunities, and the combined effect of top-down and bottom-up pressures was that economic development lost out too frequently to other priorities.

There was an overall confusion and disheartenment among many businesses over the clarity, connectivity and direction of local economic development strategies. Although the discussions focused on local authorities, businesses also questioned the strategic skills and direction of Regional Development Agencies and Government Offices. They felt that improvements were needed around strategy alignment and rationalisation, combined with better communications and business involvement.

Focusing specifically on local authorities' strategic role, most businesses recognised the potential leadership they could offer. The positive elements in this role were local authorities' knowledge of the local area and of local needs, its role as promoter of a local area to partners, to regional, and to national bodies, and its ability to generate resources and provide services.

But businesses emphasised a number of factors which could undermine local authorities' strategic place shaping role:

- time frames: local authorities were seen as operating within short-term time frames determined either by central government policy and funding regimes, or by local members' political cycles. Economic development often requires a longer time horizon (for example on major infrastructure, regeneration or workforce initiatives).
- barrier instead of enabler: local authority strategies in some cases are seen to be shaped by negative decisions rather than positive ones; often this resulted in much needed

development being delayed or abandoned because of fears over public opposition or NIMBYism

- elected members: many businesses felt that members were not interested in business needs, and lacked the knowledge and experience to consider and agree policies and actions which supported economic development
- two-tier authorities: businesses saw little benefit in a two-tier system, though discussions around appropriate size of local authorities were complex: in London, many businesses felt that initiatives needed to have the support of several or all boroughs; in the big metropolitan areas, businesses generally considered local authority size to be appropriate; in two-tier areas, districts were generally seen as too small and counties as too large

### **Knowledge and Skills**

The second concern focussed on staff skills and attitudes. Many businesses commented on the lack of expertise among council staff in dealing with business issues. There was some recognition that senior officers with, for example, economic development or regeneration portfolios, can be very knowledgeable and effective, but this did not permeate to more junior levels. Some businesses also pointed to very effective council leaders, who displayed a good understanding of business needs, but more commonly, businesses complained about underdeveloped leadership skills related to business needs and economic development. In some instances, businesses' perceptions of elected members were "anti-business" and "naive".

Many of the concerns about the credibility of local authorities as place shapers raised by businesses linked to the perceived lack of accountability to the business community. This ranged from the provision of information on budgets and expenditure to deeper engagement and joint decision making.

There was a universal acceptance of the need to have local mechanisms for creating an environment in which businesses could flourish and create local economic prosperity. Many businesses pointed to planning decisions as one of the most powerful tools for attracting business investment. Many of the concerns raised above were also related to businesses' experiences of local authority planning processes and decisions. Procedures were described as cumbersome and slow, and decision making processes as biased towards residential interests. Subsequently, businesses felt that opportunities for expansion and job creation were missed. Where local authorities were perceived to be more proactive in developing economic prosperity, this was often attributed to a more stream-lined and pro-business planning regime: *"it seems to be easier to get planning permission in council X; this seems to be down to the quality of the leadership, which seems more positive and committed to business in council X"*.

**Business Quotes:**

*“adjacent local authorities offer the same service; there should be more specialisation and sharing and they shouldn’t just focus on having to provide each service on their own”* (London, large business on service efficiency)

*“it’s like being on a beach where the lifeguard can’t swim”* (Leeds, business advisor on local government economic development skills)

*“talking to the council about planning applications is like facing a brick wall”* (Coventry, small business on planning)

*“planning decision put an emphasis on residential development; they don’t think about the need for new businesses”* (Newbury, small business on planning)

*“you can’t have a civil service mentality telling businesses what to do”* (Leeds, multi-national on local government culture)

*“X local authority spends too much time floundering around with partnerships and doesn’t take enough action”* (Coventry, small business on partnerships)

*“economic prosperity is a 20 year thing – how do you get local authorities to care about that rather than short-term services?”* (London, large business on strategy)

### **3 - Strengthening Authorities' Place Shaping Role**

Despite the critical comments made by some businesses about local authorities' current contribution to economic development, almost all participants supported a stronger place shaping role for local government. This sense of potential was grounded in the recognition that a local enabler was needed, and in a belief that in some places (examples given were North America, Birmingham, Newcastle, Manchester, Leeds) local government had demonstrated a positive strategic and mobilising role.

Businesses felt that many of the barriers identified above could be overcome. The key ingredient for strengthening local authorities' credibility was a closer relationship with the business community. This needed to take a variety of forms, and should range from member induction and coaching through local Chambers of Commerce, to the creation of partnership boards and other business oriented decision making fora. These richer strands of collaboration and consultation needed to be supported through better information management processes and generally improved governance arrangements. If this was accompanied by stronger leadership behaviours and a stream-lined and better skilled business development capacity, few businesses would not support local government as the coordinating body for local economic development.

The balance of opinion during the round-table discussions seemed to favour a strengthening of local government's role in economic development over that of regional bodies, as long as there were partnering and coordinating arrangements for regional and sub-regional collaboration. Central government (and regional bodies) needed to ensure that appropriate strategic frameworks, funding mechanisms, and partnering incentives were provided, but the main drive for the implementation of economic development activities should come through local authorities, or groups of authorities.

Businesses also favoured a reduction in central government targets which were seen as a distraction from tackling local economic development. There should be national (and where appropriate regional) frameworks which set out responsibilities and accountabilities, but which should provide sufficient flexibilities for local authorities and local businesses to decide on local needs and developments. These flexibilities, according to participants, needed to include opportunities to create different geographical units (usually larger than current authorities; in some cases more highly focused on specific neighbourhoods or on town centres), and to develop very different "blue-prints" for different parts of the country.

Businesses also felt that local authorities could take a more radical approach to economic development by encouraging a much stronger involvement from the private sector. The "big money" needed for development could not be levered out of government alone, and local authorities needed to develop the vision and commitment to make private sector partnerships work better.

**Business Quotes on Place Shaping:**

*“local councils do know the local areas; they should be able to do more with this knowledge to help new businesses”* (Newbury, small business)

*“there is a clear role for local authorities in promoting economic development, but they can only add value where they have a long-term vision and the ability to invest in the wider infrastructure”*  
(Newbury, small business)

*“we need to change the environment for local authorities and get away from the approach where they seek to tick boxes for Government, rather than deal with local issues”* (Leeds, small business)

*“(place shaping) can only work if we take politics out of the planning system; this would also release a lot of pressures from councillors”* (Newbury, large business)

*“it is essential for local authorities to be optimistic and to be radical about things like regeneration”* (London, large business)

*“we need to improve regional structures which have to deal with historic politics and competition between towns and areas; but because of the lack of leadership we are unable to do so and just spread around the resources ineffectively”* (Leeds, medium business)

*“London is a world city; this places distinct and different requirements on local authorities in London from other parts of the country”* (London, medium company)

*“local authorities must have some incentives to offer businesses to attract inward investment; they could use site assembly, and fast-track planning to attract new business”* (London, business advisor)

## 4. Current Funding Mechanisms and Incentives

### Current Business Rates

Many businesses initially expressed a reluctance to consider any new funding or charging powers for local authorities, this was a particular concern for small businesses. This reluctance was based on three factors:

#### Stability of NDR

Businesses saw the predictability of payments, and the guaranteed tie to the retail price index as a strong feature.

#### Value for Money

A common view among a sizable number of businesses was that *“we pay a lot in rates, but we have no say over how the money is spent”*. As pointed out above, businesses’ concerns over local authorities’ lack of accountability, together with the wider concerns over local authorities’ focus on business needs, meant that businesses expected local authorities to do much more to demonstrate that they deliver value for money. Until this is achieved, many businesses would remain sceptical and, subsequently, reluctant to consider additional charging options (e.g. BIDs; congestion charging, etc.).

#### Conflicting Priorities

In all the discussions, businesses voiced the fear that local authorities might misuse additional funding mechanisms to extract extra resources out of business and to spend them in other areas in order to improve services to residents.

### Changing NDR

A range of concerns about the current system of NDR also surfaced in discussion. Key among these were:

- elements of unfairness (e.g. costs to large retailers; pressures on small businesses; exclusion of farming)
- an out-of-date concept of business (e.g. in some sectors e-commerce businesses are replacing traditional retailers, but they make a lower contribution to business rates)
- lack of local incentives/rewards for successful business growth
- lack of discretion (e.g. adjustments to nurture new businesses or attract businesses into poorer areas)
- some also mentioned the inappropriateness of the basis of taxation (rateable value rather than profit)

In the course of discussions, businesses felt that NDR warranted some adjustments, provided that the overall tax burden to businesses was not increased.

### Other Mechanisms

Other existing mechanisms such as BIDs and the Local Authority Business Growth Incentive scheme received qualified endorsements. BIDs were commented on positively in the round-table discussions in Coventry, and to a lesser extent, Leeds. Their strengths were the ability they gave local businesses to make decisions and initiate service improvements, and the clarity of the planning, delivery and benefits realisation sequence. Limitations were raised in terms of the bureaucratic burden and complexity, and the limited “appropriateness” – they were seen as relevant primarily in city centre/retail configurations.

Few businesses were familiar with LABGI, but as they were discussed, businesses expressed a general support for the concept of retaining benefits generated from increasing the business base for local re-investment. Those with experience felt that at present, LABGI was too complex, and the degree of local incentivisation was not large enough.

Charging discussions focused on road charging and congestion charging. Most businesses saw congestion charging as a risk to city centre businesses which would lead to business closures and relocation. Road charging was seen as a more or less inevitable development; where businesses expressed a view, on balance road charging processes were seen as a national mechanism which should not be exposed to local flexibilities.

### Infrastructure Investment

A recurring theme throughout the discussion was the frustration caused by underinvestment in infrastructure. This ranged from discussions of specific road improvements to sub-regional, regional and national infrastructure needs. Examples, such as London’s Cross-Rail scheme, were used to demonstrate either the complexity of achieving infrastructure improvements, or the difficulty in finding the appropriate level of responsibility and capacity to promote improvements, even where business is willing to fund or co-fund improvements.

#### **Business Quotes:**

*“rates currently do not reflect what businesses are able to pay and do not take into account what a business is doing for the local area, for the community they are based on”* (Leeds, medium business)

*“It would be more constructive to approach this as a debate on investment, rather than a debate on taxation”* (Leeds, large business)

*“if local authorities were a company, they would be given economic goals to aim for and their performance could be measured; we would need some kind of measure of economic prosperity”* (London, large business)

*“there need to be better links between what businesses are contributing and what they are getting in return; this could be done through some kind of service level agreement with KPIs and financial claw-backs”* (Coventry, medium business)

## **Future Funding Options**

Although a wide range of views were represented, a number of core principles emerged from the round-table discussions:

1. businesses cautiously favoured a re-think of the current system of business rates
2. they opposed general increases in taxation or charging for current service levels
3. businesses welcomed discussions about raising additional resources for investment which clearly targets economic development
4. they generally favoured mechanisms which would retain more money to be targeted locally, although some small businesses raised concerns over the impact of local control over these decisions
5. local income generation/retention, and the ability to decide where and how to invest this were seen as important incentives for local authorities and businesses
6. local authorities needed to be more transparent on resources and achievements in economic development
7. businesses needed to have a clear say on investment decisions

Businesses supported a new partnership with local authorities and recognised the benefits of increasing local government and business incentives to invest in economic development.

Many businesses felt that if they had greater control over the way in which money was used then they would be more likely to see rates, and any increases in rates, more like an investment, rather than simply as a tax. Money raised from businesses would need to be ring-fenced for economic development. The top priority would be infrastructure improvements.

Businesses felt that these additional funding flexibilities, together with a stronger leadership role for local authorities in place shaping and economic development, would boost local investment in business environments and enhance economic prosperity.

**Business Quotes:**

*“at least some degree of equalisation should be retained and revenues reallocated by central government to help authorities with a smaller business base” (London, large business)*

*“allowing local authorities to retain some element of NDR would be a great way of incentivising them” (London, medium business)*

*“it is a good idea in principle to allow local authorities to retain the increased taxes resulting from business growth” (Leeds, large business)*

*“it would make sense for local tax increases to be matched by central tax decreases; one way forward would be to transfer national taxes to localities and give businesses in the area a say in how they are spent” (London, medium business)*

*“BIDs allow businesses to get together and have leverage; BIDs are based on a business plan and have five years to deliver; if they fail, they can be voted out at the renewal vote” (Coventry, business advisor)*