

Boots Group plc response to the INTERIM LYONS REPORT

Executive Summary

Boots welcomes the opportunity to provide input and response to the interim report. The company opposes the reintroduction of Local Business Rates believing that they would harm the vitality of businesses, distorting the property market and potentially acting as a barrier to investment. Furthermore, they would damage the much-improved relationship between retailers and local government and represent a backward step in raising accountability at local level.

Compared to a localised system, a centrally managed business rate provides many benefits including, predictability, consistency and affordability.

Tools are being developed that will generate increased revenue for Local Authorities. Some of these initiatives can be supported by business. Where established, business engagement and participation is vital, so as to ensure that investment is both targeted and genuinely additional to existing service delivery. Boots would welcome the opportunity to contribute and engage in this process.

Boots would oppose some of the other alternative methods of generating increased levels of local funding currently being considered, in particular Sales taxes, Payroll taxes and Business Activity taxes. We believe these alternatives would have the potential to distort markets, increase tax liability and vastly increase compliance costs as national companies attempted to manage over 350 varying local taxes.

The scope for further devolution of powers and responsibilities

5.26 I am interested in views on how we can strike the right balance between ensuring adequate national standards in service provision for all citizens, and allowing sufficient local variation to meet the diverse needs of local communities and to allow them to exercise choice over their own priorities.

Boots supports the premise that the equalisation system is an integral part of local government funding, allowing public services to be delivered to a consistent standard across the country. As local authorities have dramatically varying bases of business property values, central redistribution of revenues is essential and this would still be true under a localised system. A locally set business rate would distort the property market and undermine regeneration and investment in deprived areas. Paradoxically, areas with a low business base and thus most in need of investment would have to levy a proportionally higher rate, thus creating a barrier to the very investment they require.

Furthermore, pressure on local authority financing should not be viewed in isolation. Many of the budgetary pressures on local authorities originate centrally. Giving local authorities the ability to spread increases between rates and council tax would provide central government with an incentive to pass on spending requirements to the local level, pushing up taxes locally.

There is however, the opportunity to create greater freedom and flexibility in how the centrally allocated revenue is spent locally. This would not change either the quantity of business rates gathered or the central equalisation process. It would however allow different priorities to be identified to respond to local needs. If introduced business would welcome the opportunity to participate and contribute to the local consultation and management process. Although businesses do engage locally – and would welcome further opportunities, the present system discourages participation - business sees local consultation as being little more than a `talking shop`, with little real powers to turn aspirations into reality. If greater participation by business is to be encouraged there will need to be a significant focus on the quality of local partnerships, where the current provision is mixed.

The removal of the local business rate in 1990 also removed the key cause of friction between retailers and local government. Since then there has been a significant shift towards partnership and voluntary working, evidenced by numerous town centre management schemes, business crime partnerships and the growing number of Business Improvement Districts. Business is prepared to invest time and resources where it is convinced they will deliver genuine improvements. Such efforts would be seriously undermined by a supplementary or localised business rate.

The partnership approach is successful because private sector contributions are directly linked to desired improvements, rather than becoming lost in a wider and unaccountable system. As a founder corporate member of the Association of Town Centre Management Boots has contributed to local town centre partnerships for nearly two decades, and today continues to core fund one hundred and thirty schemes. The company is also committed to the principle of BIDs and chairs the British Retail Consortium BID advisory group.

Boots recognises the importance of improving engagement between business and local government and we are keen to develop mechanisms to achieve this. A barrier to closer engagement is often the ineffectiveness of local partnerships. Twice yearly Boots provides and hosts a programme for newly appointed Town Centre Managers, to develop their basic skills, and the company is keen to work with others to further improve the effectiveness of local partnerships.

It is claimed in some quarters that local authority engagement with businesses would be strengthened by the introduction of a local tax. However, retailer engagement does not come about as a result of taxation. The relationship between retailers and the local authorities has improved dramatically over the past fifteen years precisely because the friction caused by the local non-domestic rate has been removed. Previous attempts to work with local authorities were undermined by large arbitrary tax rises that were not linked to any improvement in service delivery.

Business interests and business rates

2.91 I will continue to explore the interactions between business and local government in many of the areas my remit covers. This will include further consideration of how changes to business rates could improve the ability of, and incentives on, local authorities to support and promote economic development.

The retail sector currently contributes £4bn in non-domestic rates each year, a quarter of the £16bn collected from all ratepayers. This figure is set to increase by 11%, over £400m a year following the revaluation of property in 2005, resulting in retailers paying a larger, and indeed the largest, proportion of all rate receipts.

The Boots Group will pay rates to the value of £82 million in 05/06, an increase of 19% on 04/05 (£66.5 million).

While business rates are just one of a range of factors influencing business decisions, a 2002 CBI survey found that the level of business taxation was a key influence on business location decisions for 91% of senior executives.

Retail outlets are often limited by the supply of accessible property, such as in a town centre or Retail Park, while other non-retail businesses are not dependent on their trading location. This restricts the market for retail property, raising both property values and non-domestic rates as a result. Consequently, retailers are particularly sensitive to any changes in the national non-domestic rate.

While locally domestic council tax has risen sharply, at national level it is business that has borne the brunt of tax increases. The CBI has estimated that since 1997, the overall business tax bill has risen by £54.2bn. These payments have already made a significant contribution to both local and central government public services.

- Furthermore, it is necessary to place proposals for the reintroduction of local Business rates in the context of recent policy initiatives that have already been implemented which will impact on business. For example: Business Improvement Districts. Boots forecast their annual BIDs budget will reach £500,000 within the first 2 years of their launch
- Congestion Charging – increased prices and an extended area planned for London
- Infrastructure funding – for example the proposed funding for Crossrail may include a 3% levy on all businesses inside the M25. The annual cost to Boots would be in excess of £450,000 during the projects 10 year duration. The implications to business would be extremely serious, if these kind of proposals spread to pay for infrastructure initiatives as diverse as the Nottingham Tram and the Olympics
- The growth and development of Alcohol Disorder Zones

Boots opposes the re-introduction of a local Business rate, instead favouring a tax set nationally, tied to the retail price index. A system of local Business rates would reduce predictability, consistency and affordability for retailers and create a system of large variations in tax across hundreds of authority boundaries. Furthermore it would create a system where tax increases bear no relation to service delivery or business performance.

Local authorities are not accountable to businesses through the electoral system. Under a localised system of taxation there would be little incentive not to increase taxes. Businesses do not vote in local elections. Accountability of local authorities to business is often indirect and dependent on recognition by authorities that successful local business is essential for the long-term vitality of their communities. This is often an abstract concept at

best as local authorities are subject to a vast range of priorities and targets, none of which take account of the health and vitality of the business community.

Organisations representing local authorities claim that businesses are indirectly represented through the local electorate, who have an interest in the vitality of local business. This is an unsubstantiated argument and there is no evidence to suggest that local people will vote based on a local authority's policy towards businesses. The density of local authorities also means that people do not live, work and shop all in one council area and any such link, if it historically existed, is now broken.

The current nationally administered system, while imperfect, has many advantages over local rating. Over a five-year period bills are predictable and therefore ratepayers budgets can be planned in advance. A localised business rate would seriously weaken business ability to plan and in some cases, pay rates, as national companies would be faced with managing over 350 varying local taxes.

At present, the national business rate poundage means that a company's bill is closely tied to the size and value of the premises. A local business rate would introduce arbitrary variations into this scheme, meaning that companies occupying premises of the same worth in two different parts of the country could pay widely varying sums of money.

Local land Tax

S.72 I am particularly interested in exploring taxes, which could improve the incentives faced by local authorities by providing a link between resources and local development and population change.

2.96 A land value tax on derelict brownfield land (which currently faces no tax) might have a role in future in providing incentives for development, particularly where expenditure on remediation and decontamination is required. This line of thinking also raises questions about the justification for the set of reliefs for empty property that exist in the current business rates system.

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Boots opposes the introduction of Land Tax as a basis for taxation. The main problem with land taxation is the methodology for valuation. Vacant land with development potential is valued as a residual of the development process – the value of a hypothetical completed and fully let and occupied development, less the cost of development. The complex nature of the development market and the inherent risks means that it will be almost impossible to come up with a fair, transparent and workable tax. Valuing the land element of built land is even more theoretical as sites have been developed to varying levels of density for historic and planning reasons - therefore increasing the scope for inconsistency and further bureaucracy.

Taxing vacant land is unlikely to encourage the development of surplus land. The UK market is limited by the supply of suitable development land in the right location. You will only develop land when there is a reasonable prospect of there being a market for the completed development, sufficient certainty on development cost, understandable risk – planning, ground conditions, construction, finance, market (occupational and investment), and prospects of a financial return commensurate with the risk. Addressing the weaknesses of the current planning system to increase the supply of land for development will be far more effective.

It is no surprise that there has been little appetite for this type of tax in densely developed countries with mature property markets.

Similar considerations apply in relation to Planning Gain Supplement (PGS). The main advantage of PGS over the current process (s106 etc) is said to be its more predictable form and its ability to ensure that a development carries its financial share of the provision of the infrastructure necessitated by it. There is however no evidence of a relationship between the infrastructure improvements necessitated by a development and the development value generated.

Turning to business rates relief for empty property, no landlord (or tenant trying to off-load surplus property) willingly allows space to be vacant. They are already incurring cost - why penalise them further?

Other taxes and charges

2.104 I am interested in exploring further the extent to which the revenues from such schemes should be retained locally, regionally or nationally.

Although opposed to the reintroduction of the local business rate, Boots recognises there may be other financial `tools`, which can be introduced to enable finance to be gathered and invested at a more local level. Some of these tools are already available to local authorities, whilst others will require new legislation. The list below is by no means comprehensive, but illustrates the potential breadth of local taxation opportunities.

- BIDs. Business Improvement Districts allow local business to vote for a small addition to the basic business rate, to be reinvestment in their local trading environment. Where a positive vote is gained a private sector led partnership will manage the reinvestment of money raised by the levy. The Local Government Act 2003 gives local authorities the power to enter into BIDs. To date more than two dozen BIDs have come into being and many more are being developed across England and Wales
- Congestion Charging allows a local authority to address the problem of traffic congestion in their area, and provides the opportunity for revenues generated to be reinvested in the local transport system.
- Joint ventures enable local authorities to share development profits with the private sector and unlock income from increased land values.
- Tax Incremental Financing (TIF). TIFs could use predicted higher land values and future property tax revenues to secure financing through bonds and other mechanisms

in order to facilitate development of defined areas, and pay for necessary infrastructure improvements.

Where local taxation opportunities are developed Boots would welcome the opportunity for a greater level of business engagement. A partnership approach is essential, enabling the private sector to input into both the development and management of the Business Plan associated with the new income.

Boots would however oppose other potential sources of local government finance.

- **Sales Tax.** A sales tax would distort local markets, driving consumers across local authority boundaries to seek lower charges. Local authorities have responsibility for too small a geographical area to be able to set a sales tax without distorting the market. A sales tax would also present a further compliance cost, one that varied across 350 areas.
- **Payroll Taxes.** The company would strongly oppose the introduction of any local payroll tax. It is difficult to imagine how this could be introduced without creating a disincentive on employment.
- **A local income tax** would only be local if local authorities set tax rates, bands and allowances. If this were to occur the tax would become enormously difficult to manage and administer for both the Inland Revenue and employers via the PAYE system.
- **Business Activity Taxes.** The practical difficulties in introducing taxes linked to economic performance are immense. How would the profitability of a national retailer be determined? Furthermore the yield arising from such a tax would be variable and unpredictable, dependant on the strength of local economies.

Incentive measures

2.113 I am particularly interested in exploring the issue of incentives further. The Government has recently introduced the Local Authority Business Growth Incentive scheme to give local authorities some financial benefit from growth in their business rates base. I would welcome views on this scheme and other possible incentive measures and reforms.

Boots believes that Business Growth Incentives provide the opportunity for a partnership between local business and the local authority to benefit local communities and stimulate inward investment. They appear to provide a method of rewarding those local communities that encourage business development. However, during the legislative consultation on Growth Incentives, business engagement was recognised by the Treasury as being an integral part of the process, and we are concerned to see their early development as being largely Public Sector focused. In many sites the quality of private/public sector engagement is weak with little genuine shared decision-making. Any structure that does exist is often complicated and bureaucratic. We would welcome the opportunity to participate in and contribute to greater local dialogue and partnership.

User charges for services

5.77 Charging for services is a controversial issue with a number of potential advantages and risks. My public attitudes research highlighted a general resistance to charging for key services, though I believe it is potentially interesting as a possible way of improving public understanding of the costs of services, and of managing pressures more effectively. It remains an issue I intend to explore further and return to in more detail in my final report.

The total amount local authorities currently receive from sales, fees and charges are significant, with £10.2 billion raised in 2003-4. This is an increase of 55 per cent from the amount raised in 1997-98 and represents around 9 per cent of local authority income from all sources.

Broadly we would oppose the introduction of further charges for services. Such an extension of powers would encourage local authorities to charge for services currently funded under the present arrangement. Any additional charging mechanism added to local authorities should be matched by a reduction in charges elsewhere.

Whilst the charging for services at local level might increase transparency and accountability, we would be concerned that they may also increase the complexity and cost of gathering and administering this revenue. There is little understanding amongst either domestic or business users of services, and the balance of funding between Local and Central government, and one could argue that there might be significant cost savings to be derived from collecting the revenue through increased general taxation!

Furthermore, retailers already make a significant contribution to the services they receive via service charges to Landlords. These service charges deliver many of the services that in other areas of the town are supplied by the Local Authority, including security, cleansing, marketing and promotion and the attraction of new businesses. The Boots Group currently contributes in excess of £26 million through` service charge payments.

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