



THE BRITISH  
CHAMBERS OF  
COMMERCE

## **Lyons Inquiry into Local Government**

Response to Sir Michael Lyons from the  
British Chambers of Commerce

*March 2006*

### **About the British Chambers of Commerce**

The British Chambers of Commerce (BCC) is the national voice of local business; a national network of quality-accredited Chambers of Commerce, uniquely positioned at the heart of every business community in the UK. The BCC represents 100,000 businesses of all sizes across all sectors of the economy who together employ over 5 million people.

### **Chambers of Commerce, local authorities and local communities**

Chambers of Commerce are rooted in their local communities. They represent local businesses and have close working links with local government and public sector agencies. Many Chambers and individual businesses have very good relations with their local authorities, although in a number of places there is scope for improvement.

Chambers already work closely with local authorities on initiatives such as Local Strategic Partnerships (LSPs) and the recently introduced Local Enterprise Growth Initiative (LEGI). A number of Chambers and their members are playing leading roles either at LSP executive level or in thematic groups such as economic development partnerships. Chambers were recently involved in LEGI bids and the majority of successful Round 1 bids have Chamber engagement, if not leadership.

Amongst businesses there is considerable enthusiasm for seeing improvements to their local communities and the quality of local government. The effective delivery of local authority services such as education, transport, police, fire, economic development, environmental services, leisure and libraries, as well as their regulatory functions such as planning, are of critical importance to a thriving business community.

### **Summary**

In this response we set out the major concerns of business in relation to the current state of local government as well as what businesses believe the role of local government should be and where the private sector would sit in relation to that role. We have therefore focused on the principal areas of concern for businesses in preference to addressing all the questions set out in the consultation document. We will, however, be contributing further to the debate on local government, and its role vis-à-vis regional and central government, in the context of the forthcoming White Paper on local government reform.

In this response, we express our support for a strategic role for local authorities, for increased clarity in local government responsibilities and the need for strong local partnerships in implementing these responsibilities. Central to the Inquiry, we argue, is that local government should be responsive to business needs and interests and the

financial contribution of business be related to the level of service provided and be determined on an accountable basis through a national non-domestic rate.

### **The strategic role of local government**

*What is the strategic role of local government?*

Businesses are in favour of the proposed strategic role of local government, broadly defined as 'place-shaping'. In our recent submission to ODPM's consultation on Local Strategic Partnerships (LSPs), we outlined our belief that their key role should be to develop the vision for a local area, provided that they effectively engage partners from the private and voluntary sectors.

We are of the opinion that local government, in conjunction with major local players such as Chambers of Commerce, potentially via LSPs where these are effective cross-sector partnerships, should have responsibility for 'place-shaping' and providing the leadership necessary to fulfil this role. Local authorities and businesses are vital to each other's success and have a common interest in the formation and realization of any local vision and 'place-shaping'.

We cannot stress strongly enough the importance of economic development in every community and the weight that local government must attach to this. A prosperous business environment and economic growth underpins the success of a local area, creates jobs and wealth and, through an increase in rateable value, brings financial benefits back to a local area.

Supporting economic development, including by supporting other organisations such as Chambers of Commerce that are already engaged in this area of activity, should be a strategic priority for local authorities. We do not envisage that local government should set out to be the direct deliverer of economic development schemes. Instead, it should create an environment conducive to businesses, attractive to new investment and appealing to skilled workers, for example through its procurement practices and efforts to create a safe, low crime area. In Barnsley, for example, Barnsley Chamber of Commerce and the Metropolitan Borough Council are partners in Barnsley Development Agency, bringing together public funding with private sector expertise to achieve economic development and regeneration.

Where organisations in a local area other than the local authority have the expertise and the mechanisms to deliver programmes, for example those targeted at developing the local economy, they should lead on this and be responsible for delivery, albeit with the support of the local authority. The Local Enterprise Growth Initiative (LEGI) is a good example of this: of the 10 successful bids in Round 1, the majority have strong private sector engagement, are using existing business support and enterprise education networks and in some cases are private sector-led, for example in St Helens. This should likewise be the case for other services.

Local authorities have finite resources, both in terms of staff and money, and it is unrealistic for them to be charged with delivering yet more services. We would urge central and local government to use the opportunity presented by the extended Lyons Inquiry to rethink the extent of local government responsibility for services and look at what could realistically be delivered by other sectors and organisations. The BCC also believes that there are opportunities for joint delivery and sharing of services with other

public sector bodies which could benefit from economies of scale and free up extra money for the front line services which can only be delivered by local government.

*How does the strategic role vary between different types of council?*

The strategic role of local government undoubtedly varies according to the type of council. The smaller the area or the population served, the less strategic the role of the council can be. Some issues such as transport and economic development can best be addressed at a sub-regional level, given that they often cross local authority boundaries. In our response to the consultation on LSPs, we supported the idea of greater delineation between district and county level LSPs. Similarly, we believe that the different remits of different types of council needs to be made far clearer to members of the public and businesses.

*What tools do councils need to perform the strategic role more effectively?*

Councils need appropriate powers, high-quality leadership and flexibility if they are to fulfil their strategic role. As outlined earlier, we believe that councils need to do this in conjunction with other organisations in the local area. Councils therefore need the ability to work closely with partners, involve businesses in local civic leadership and recognize the limits of their own expertise and resources.

The LSPs that are working well have already recognized the benefits of this approach and have engaged the private and voluntary sectors in a substantive manner. Some are chaired by private sector representatives, others have a number of private sector individuals on their Boards. The LSP approach, where it is done properly, can ensure that local priorities are a reflection of the interests of all sectors in the community. It can also mean that those organisations with the ability to act on these priorities are actively involved in the decision-making process. Whilst improvements are needed to many LSPs and businesses do not believe that it should be a requirement for every local authority to have an LSP, there are some lessons to be learnt about leadership from those that do work effectively.

*Are further improvements in performance, efficiency and accountability needed before local government can most effectively play this strategic role and be trusted to do so?*

There are real issues of a lack of trust between local government and business communities, not least over the issue of local government finance. Although in some areas Chambers of Commerce do work closely with their local authorities, rapidly escalating business rates during the 1980s have left a legacy of mistrust. Even where relations are now better, this is by no means taken for granted.

In order to build up greater trust between local government and business communities, there need to be real improvements in terms of cost-effectiveness, performance and the calibre of staff. Engagement of businesses and citizens is essential and must be accompanied by rigorous improvements, or reform where necessary, to local authority structures and processes. Simplifying local arrangements for the delivery of services could reduce bureaucracy, focus resources, involve other sectors and lead to greater efficiencies, savings and better delivery.

Undoubtedly the performance of many local authorities could be improved and it is our view that this can only happen with strong and effective leadership at both strategic and operational levels. We are therefore supportive of measures to improve local leadership, as well as efforts to raise the calibre of officers in local government. It is vital that they come

from a range of backgrounds, including business, so that there is a real appreciation of the importance of businesses and the pressures they face.

*How important is the fact that local government is elected in relation to its ability and legitimacy to perform this role?*

Inevitably, the fact that local government is elected does affect its ability and legitimacy to perform the strategic role envisaged for it. Election gives local authorities a right to articulate the overall ambitions of the population, but does not necessarily mean that each specific interest is adequately reflected. The turnout rates in local elections are a major concern in relation to councils' democratic mandate and hence their ability to claim the strategic, leading role for the local area.

For businesses, the key concern is that as business does not have a vote as such, there is a tendency for councillors to prioritise those issues which keep voting residents happy. Though this is not always the case and many local authorities do seem to have become increasingly aware of the need to pursue policies that encourage business, it can sometimes result in decisions detrimental to business, for example in relation to planning, transport or crime, with business crime often sidelined. If local authorities are to be responsible for 'place-shaping', they must take a view which is more encompassing and longer-term.

### **Devolution and decentralization**

*Which services (or parts of services) should meet national standards in all areas of the country? Which should meet minimum standards? Which should be entirely down to local choice?*

We are in favour of local flexibility in terms of how outcomes are achieved, but on balance we believe that national minimum standards should be set, along the lines of the floor targets used in regeneration programmes. Minimum standards are necessary to ensure that poor performing councils do not fail their communities, including business communities, but still enable better councils to achieve higher standards.

Minimum standards should apply to services such as education, social services, transport, planning, housing, crime (including business crime), economic development, regeneration, police and fire. In a small number of instances, for example on national curriculum attainment, child safeguarding and emergency response, national standards should be applied. However, the means of achieving these standards should not be nationally prescribed. If local authorities have flexibility and are required to be more enterprising in their approach they will engage better with local players such as Chambers of Commerce, bringing all sectors in the community closer together in the prioritization, design and delivery of services and ensuring local influence over the most pressing matters for a community.

*How has the Government's approach to devolution and decentralization affected your area and your local services?*

The BCC believes that the organisation of public administration and service delivery in the UK is over-centralised in many areas and this situation has become increasingly pronounced over recent years. Overly detailed, burdensome prescription from the centre constrains councils' responses to local circumstances. Undoubtedly there needs to be some

standardisation and monitoring, but councils need to have flexibility in how they address local priorities.

Devolving some powers away from the centre can benefit businesses by taking decisions closer to those who are affected by them and strengthening the relationship between local business communities and local authorities. Businesses feel that local government has a particularly important role to play, due to its physical proximity to local communities and historical ties between local government, people and businesses.

The role of local government in a more devolved system has to be seen in the wider context of devolution to regional and sub-regional levels. The various competing agendas have been well publicised in the last few years, not least since the North East Assembly referendum in November 2004. We want to see greater clarity on the responsibilities of the various levels of government and, once this is done, some long-term stability. We hope that the Lyons Inquiry, together with the forthcoming White Paper on local government, having provoked much debate on the issues, will then provide this clarity and stability.

### **Managing pressures on local services**

*How can pressures on local services be managed more effectively?*

Some of the multitude of services that district councils are responsible for (numbered at around 80) could be more effectively brought under the aegis of county councils in order to avoid duplication. Issues such as transport, economic development and community safety currently fall within the remit of both types of council, something which businesses frequently cite as confusing and liable to result in unnecessary duplication. In this respect, greater devolution of responsibility is probably not appropriate. Very few services are currently shared between councils or jointly procured from an outside provider. Aggregating local government services could allow greater efficiency in areas of support services, financial administration, tax collection and contact centres.

*Do confusion about responsibility and duplication of effort contribute to pressures?*

The lack of delineation, or a perceived lack of delineation, in terms of what local government is responsible for and what things other levels of government or public bodies are responsible for undoubtedly contributes to pressures on local government. This is particularly acute in two-tier areas. Amongst the business community, there is often a lack of understanding and low awareness of who does what in relation to the local delivery of services. We believe that this confusion is unlikely to be confined to the business community.

There needs to be greater clarity about the roles of local authority departments and individuals. On occasion, Chamber members have found that even when the relevant person or department is identified the staff in question do not have the authority to take decisions.

### **Scope for a new agreement**

*How could responsibility for local services be made clearer between local government, central government and other agencies?*

As detailed previously, greater clarity about what level of government – local, regional or national – is responsible for which services together with greater scope for local authorities to be flexible in how they deliver services and who they use to do this, would

undoubtedly help businesses and other sections of the local community understand which services local government is responsible for. Furthermore, if local authorities had to devise the best way for them to deliver the services they are responsible for, using whichever means they and local partners see fit, we believe there is likely to be a better prioritization of services and due responsibility for ensuring that those services are delivered cost-effectively and to the highest quality.

*What might this mean for the current performance management framework?*

Comprehensive Performance Assessments (CPAs) have meant that there is a more coherent way to assess performance. By allowing high-performing councils additional freedoms and flexibilities, this strategy seems to have had some benefits in terms of incentivising improved performance. These measures should be given time to take effect rather than introducing further changes in the near future.

The Beacon Council scheme has also been beneficial in highlighting good performance. We would, however, like to see more evidence of the effectiveness of the scheme in terms of driving up performance among other authorities. We have contributed to the consultation on themes for rounds 9 and 10 of the Beacon Scheme suggesting that economic development and themes that directly affect businesses should be given a higher priority.

Overall, we do question some of the initiatives that seek to introduce target setting and performance management into local government. Despite the introduction of these, it appears that failing local authorities tend only to be subject to the displeasure of local citizens at election time and in opinion polls, with relatively few other penalties. As a result, the response of local authorities to changing public needs can be slow. A more market-led delivery system, perhaps either through increasing accountability and efficiency targets or by contracting delivery of a greater part of local authority services to the private sector, could ensure a more rapid transformation of services.

### **Local Government Finance and the business perspective**

For businesses, the area of most concern in relation to the Lyons Inquiry is the balance of funding and in particular the threat of the localisation of business rates. We have serious concerns over suggestions that the setting of the business rate should be returned to the control of local authorities. Such a step is likely to lead to increased business rates which would serve to discourage, rather than foster, enterprise. Businesses are already heavily burdened, with the extra cost on businesses due to additional major regulation since 1997 now standing at £50 billion as well as an increase in business taxes of £50 billion since 1997.<sup>1</sup> Businesses are also facing the prospect of compulsory employer pension contributions, rising energy costs and, potentially, national road pricing.

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<sup>1</sup> *Burdens Barometer 2006*, British Chambers of Commerce, 2006, p.1

Prior to 1990, when business rates were last set at a local level, increases were often excessive and unrelated to the service provided to business. Because businesses do not vote, we fear that re-localisation would again lead to excessive business rate increases because authorities could do so without the political problems that arise with increases in domestic taxes.

The contribution of business rates towards local government finance is already substantial. The estimated contribution of business to local government finances in the financial year 2005/06, as set out in the Pre-Budget Report 2005, is £20.3 billion. On top of this, local government is also partly financed by central government grants to which business contributes through numerous other taxes. The most costly of these is corporation tax, which was forecast to raise £43.7 billion in 2005-06.<sup>2</sup>

Business is not opposed to paying a fair business rate, but we believe that there must be accountability and it should be related to the services that are provided. There is limited evidence that the relationship between businesses and local authorities has improved sufficiently to persuade us that local authorities should now be given back the control of business rates. In contrast, retaining the business rate at a national level ensures national scrutiny of it.

We are willing to seriously consider changes to local government funding where accountability is built in. As such, we support an element of local retention of rates, building on the Local Authority Business Growth Incentives Scheme (LABGI) and the existing powers for BIDs.

### *Chambers' Key Concerns*

#### *1. Historical Lessons*

Prior to 1990, individual local authorities were responsible for setting business rates in their geographical areas. However, there was considerable unease within the business community about this system because increases in costs under the local system had frequently proven to be arbitrary, excessive and unrelated to any benefit provided to business. By 1989, the proportion of local government spending that was funded by business rates had reached a high point of 29%.<sup>3</sup>

BCC and the Chamber network campaigned heavily at the time to have the setting of the business rate transferred to national level. Because many of the local authorities that had imposed the largest rises were located in Northern cities, Northern Chambers of Commerce were at the forefront of this campaign.

As a result of this pressure, the National Non-Domestic Rate (NNDR) was created by the Local Government Finance Act 1988 and introduced in 1990. Largely because it is inflation-linked, the yield from non-domestic rates has been stable in real terms since 1990. This stability is of critical importance to businesses because it allows them to plan their future operations.

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<sup>2</sup> Budget 2005

<sup>3</sup> ODPM Select Committee, 'Local Government Revenue', Ninth Report of 2003-04

## 2. Threat of Increased Taxation

With regards to the inquiry into the Balance of Local Government Funding, the British Chambers of Commerce's (BCC) key concern was the suggestion, argued most vociferously by the Local Government Association (LGA), that the setting of the business rate should be returned to the control of local authorities.

The BCC has significant concerns about this suggestion which we fear would lead to an increase in business rates. As business does not have a vote the fear is that local authorities would be tempted to increase business rates because they could enhance their spending power without enduring the political pain associated with increases in council tax.

The fear that re-localisation would lead to an increase in business rates is influenced by two key factors:

- The experience of what happened prior to 1990 when the business rate was last in the hands of local authorities and many authorities increased business rates to unsustainable levels.
- The language that is used by many of those in favour of re-localisation leads one to believe that the key motivation behind the wish to re-localise the business rate is to increase the revenue that comes from business in order to reduce the revenue that is generated from domestic ratepayers, through council tax. For example, the ODPM Select Committee has said: *“This change would reduce the effects of gearing, **take some of the pressure off the council tax payer** and it would provide a real link between local authorities and business.”*<sup>4</sup>

The impact of increasing business rates in this way would be to discourage, rather than foster, enterprise. Increases would be particularly damaging to firms in disadvantaged areas, where the level of the increase deemed necessary by the local authority would almost certainly be higher than in more prosperous areas. This is worrying as the regeneration of disadvantaged areas is heavily reliant on a thriving and dynamic business community.

The key to enterprise in disadvantaged areas is through the stimulation, growth and retention of indigenous business. However, crime, a poor education and skills system, a heavy regulatory burden and high levels of taxation drive business away and lead to the problem deteriorating. In order to regenerate deprived areas, government at all levels must work to ensure that a climate conducive to trading is maintained. Small firms cannot grow into larger ones if they are strangled with red tape and taxation.

Further to this, a low tax economy allows businesses to develop and promotes enterprise and economic growth. This in turn allows businesses to create jobs and wealth, which will further the ability of employees to pay council tax.

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<sup>4</sup> ODPM Select Committee, ‘Local Government Revenue’, Ninth Report of 2003-04, p 60

### *3. Scotland and Ireland*

The likelihood that devolved control of the business rate will lead to increases in the business rate is borne out by evidence from both Ireland and Scotland.

In Scotland the Scottish Executive has responsibility for setting the poundage rate. In 2000, the Executive decided to end parity with England and establish a higher rate north of the border, although this is being reduced with effect from 1 April 2006. However, parity has yet to be reintroduced. The effect of this has been that Scottish businesses have seen a dramatic increase in their tax take over the intervening period, which has had an adverse impact on the competitiveness of businesses based in Scotland. The proposed poundage rate of 4.6p for 2005/6 was significantly higher than the rate of 4.2p for the same period in England. Restoring parity would reduce by £150 million the annual amount Scottish-based firms pay in non-domestic rates, which in 2005/06 will exceed £2 billion for the first time. The Scottish Chambers of Commerce continues to campaign for UBR parity with England.

Evidence from the Irish Republic suggests that local authorities will raise rates by more than inflation if they are given the opportunity. In Ireland, over the decade from 1994-2004, the average cumulative increase in commercial rates set by local authorities has been almost double the cumulative rate of inflation (CPI) over the same period. In 2003, rate increases were as high as 25%.<sup>5</sup>

The total take in commercial rates has increased from €538,090,400 in 1999 to €906,185,975 in 2004 which represents an increase of 68.41%. In some authorities over half of total expenditure is funded through commercial rates.<sup>6</sup> The situation was further exacerbated in 2003 by the decision to abolish the cap on commercial rates increases, which had been set annually.

In addition to the increases in rates, Irish businesses also pay for: water; disposal of waste water; disposal of commercial waste; charges linked to planning permission/ development levies and the provision of parking.

### *4. Business already makes a large contribution.*

The contribution of business rates towards local government finance is already substantial. In 2004-05, the funding of revenue expenditure from business rates was £15 billion. In 2005-06, the local government settlement states that the contribution will rise to approximately £20 billion.<sup>7</sup>

On top of the £20 billion that business is expected to pay to local government through business rates in 2005-06, local government is also partly financed by central government grants. Business contributes to these grants through numerous other taxes, the most costly of which are corporation tax and employers' national insurance contributions.

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<sup>5</sup> Chambers of Commerce of Ireland, *'Local Authority Financing – Government in Denial'*, 2004

<sup>6</sup> Chambers of Commerce of Ireland, *'Local Authority Financing – Government in Denial'*, 2004

<sup>7</sup> Commons Hansard, 2 Dec 2004, Column 805

In 2003/04 corporation tax raised £28.6bn and employers' national insurance contributions raised £41bn.<sup>8</sup> Other taxes on business include the climate change levy (£0.8bn), landfill tax (£0.6bn), VAT, stamp duty, capital gains tax, fuel tax and insurance premium tax.

Overall, the business community in the UK has a relatively high burden of business taxation in comparison to many of our European competitors, in particular many of the accession countries in Eastern Europe. Indeed, in 2003 twelve countries in the EU had lower corporation taxes than the UK. In the face of such competition, it would be damaging to our overseas competitiveness to raise business taxation further.

Whilst we are concerned about the possibility of general increases in business rates, it must be stressed that business is not opposed to paying a fair business rate. However, the key factors that should determine any changes should be accountability and a direct relationship to the services that are provided.

#### *5. The national system provides accountability*

Local businesses interact with local authorities in many ways. Businesses are important to local councils because they are the source of local economic activity; employ local people; provide council services in partnership with local authorities; use local authority services; and are partners in development and regeneration. In addition to this, local councils are important to business because they: provide the necessary infrastructure; purchase goods and services; and regulate and enforce legislation affecting planning, building, trading and environmental objectives.

In order for this relationship to be productive and constructive, it is important that there is accountability. Prior to 1990 and the decision to set the business rate at a national level, one of the key complaints levelled at the system of local government was the poor relationship of many local authorities with business. Under these circumstances, there is taxation without representation. Businesses are taxed but unlike domestic consumers, they have no voting rights.

Unfortunately, whilst there are examples of individual councils working well with their local business communities, there is also evidence from other areas that local authorities are not doing enough to establish constructive relationships to benefit the local area. Some examples of Chamber / Local Authority relationships have been given by a number of Chambers of Commerce.

**Dudley** - An example of an area where relations have been positive in recent years is given by Dudley in the West Midlands. The Black Country Chamber of Commerce has highlighted four positive steps:

Dudley Business Group. - The Chamber and Dudley Metropolitan Borough Council (MBC) have held bi-monthly meetings for a number of years, which are used to express views comments from both sides. Membership includes local council leaders, chief officers, Chamber president and board members. The Chamber has found these meetings particularly useful in resolving issues such as bus lanes, security on industrial estates and street cleaning.

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<sup>8</sup> Budget 2005 and ONS Annual Abstract 2005

Business Park Coordinators - The Chamber is sub-contracted to Dudley and Sandwell MBC to deliver benefits to targeted business estates/parks in the two boroughs through the employment of business park coordinators. The funding for the posts is via the Council from Advantage West Midlands and is constantly monitored and measured for outputs and inputs.

Mayoral Visits - Through Chamber encouragement, over the last year the Mayor of Dudley has carried out a series of visits to local authorities and has held three business lunches - all in recognition of what business does for the community.

Business Development Manager - In order to create a better understanding and working relationship between private and public sector, Dudley MBC last year appointed last year a Business Development Manager whose main role is to liaise with business and provide assistance where possible

**North and Western Lancashire** - A number of good working links have also been highlighted in North and Western Lancashire. The North and Western Lancashire Chamber of Commerce has been offered a “hot desk” facility in a new Technology Centre free of charge by one local authority. The Chamber is also working closely with the County Council’s Brussels office. It is pointed out, however, that the strength of the working links between the Chamber and LAs tend to depend on the individual relationships members of staff have with LA officers. Good working relationships at an officer level tend to mean good links at a Member level.

**Tamworth** - A less satisfactory relationship with business has been identified in Tamworth. The local Chamber of Commerce, a division of the Southern Staffordshire Chamber, identified that the local authority had taken the option not to devise an economic strategy. The Chamber, together with the local FE college and other interested groups including Business Link, Job Centre Plus and secondary schools, formed an economic partnership. Among the primary targets for the group was the reduction of out-commuting, enhancing the infrastructure and environment so as to attract businesses with better paid jobs, making the curricula in schools and the college relevant to the skills needs of local employers and exploiting Tamworth’s historic and locational advantages.

However, the partnership has failed because of a lack of input from the local authority, who insisted on imposing a level of bureaucracy that stifled progress. The Chamber has reported that officers “*belittled the proposals without offering constructive alternatives, agreed actions were often not carried out, reports were dilatory and incomplete and it became apparent that the authority had little or no respect for the work that was being done – mostly on a voluntary basis*”.

As a result the Chamber has been forced to withdraw from the proposal and the partnership has failed. Tamworth, an area in need of economic assistance, now has no strategy to create or upgrade jobs, attract new investment or provide the stimulus that would encourage improved educational and vocational achievement. The Chamber looks on this as a big opportunity sadly missed through “*incompetence and indifference*”.

Because of this imbalance in the strength of local partnerships, we do not believe that there is sufficient evidence nationwide to suggest that all local authorities should now be

given back the control of business rates. With insufficient accountability to business, there is a strong likelihood that we will see a return to previous times when business rates in many areas were increased to unsustainable levels, damaging business precisely because of the lack of a business vote.

In contrast, retaining the business rate at a national level ensures national scrutiny of it. Returning it to local control would avoid any effective accountability and we oppose it strongly.

Local authorities need to work with their business communities and see them as a means of driving forward economic development and prosperity. Currently Local Strategic Partnerships vary from one area to the next in their effectiveness and the level of involvement with the business community in terms of influencing strategy.

Local authorities also need to engage more effectively with their business communities. The feeling in some areas is that consultation, whether it be through local groups such as LSPs or other means, is not always meaningful. This needs to change if local authorities are to work more effectively with their business communities.

#### *6. Taxation should be set according to services provided*

Local Authorities provide a range of services, many of which benefit business. Services that are of particular benefit to business include: approving planning applications; enforcing health, safety and trading standards requirements; issuing parking permits; waste disposal; street cleaning; and issuing premises licences to businesses who supply alcohol, provide entertainment or late night refreshments. Many local authorities also offer a range of business-support services to encourage economic development and regeneration.<sup>9</sup>

Although it is a difficult calculation to make, because of a lack of clarity about what exactly constitutes 'benefit to business', a past estimate has suggested that the proportion of local spending that benefits business is approximately 15%.<sup>10</sup> In contrast the proportion of local government spending that is funded by business rates has been greater than 20% every year since 1989.

Evidence from other countries has suggested that creating a system whereby the non-residential sector is used to subsidise the residential sector can be economically harmful. A study conducted by academics from Trent University in Canada has examined data from all OECD countries and found that in countries with a fully developed property tax system, higher taxes are almost always imposed on non-residential properties when compared with residential properties. The consequence is that non-residential properties are used to subsidise services consumed by the residential sector. They conclude that the knock on effect of this can be to create serious economic problems for the country concerned.<sup>11</sup>

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<sup>9</sup> Business Link online

<sup>10</sup> Jackman (1987), 'Paying for local government: an appraisal of the British Government's proposals for non-domestic rates', *Government and Policy*, vol. 5, pp. 89-98

<sup>11</sup> Kitchen (2003) '*The Consortium for Economic Policy Research and Advice, Association of Universities and Colleges of Canada*' Prepared for The Consortium for Economic Policy Research and Advice, Association of Universities and Colleges of Canada.

*“If the local tax on business is set to recover the cost of services used, it is efficient, fair and accountable. The practice in many countries, however, is for local taxation to overtax business, thus creating potentially serious economic problems for the entire state or country. To prevent harmful and serious consequences, there may be a case for some state regulation.”*

To demonstrate their point they highlight other studies from Canada and the US.<sup>12</sup>

**Canada** - Two Canadian studies in the early nineties found that the residential sector when compared with the non-residential sector was the recipient of proportionately more benefits from local government.<sup>13</sup> When combined with higher effective property tax rates paid by the non-residential sector, the studies concluded that the latter is overtaxed and the residential sector undertaxed. The studies point out that, based on this information, beginning in 1995, the local council in the City of Vancouver shifted, over the ensuing five years, some of its tax burden from the commercial and industrial sector onto the residential sector. More recently, the provincial government in Ontario announced that tax increases beyond the range of fairness (established as a standard that is defined by taking the ratio of commercial/industrial taxes to single dwelling residential property taxes) must be imposed on the residential sector and not on the commercial/industrial sector.

**United States** - A more recent study in the United States found similar results. Specifically, it was estimated that the ‘business related’ share of combined state and local expenditures in the United States is about 13 percent, although there is considerable variation from state to state. These businesses, however, pay proportionately more of the state and local taxes.<sup>14</sup> The study found that because these taxes represent a fixed charge that the firm must pay, they are unrelated to the value of municipal services consumed or profits earned. As such, as long as the tax rate is more than necessary to cover the cost of the last unit of municipal services consumed or if there are no economic rents for it to capture, resources will be allocated inefficiently. It is suggested that this overtaxation of the non-residential sector may lead to less economic activity, lower output, fewer jobs and a less competitive business environment.<sup>15</sup>

It has been suggested by a number of bodies including the LGA and the ODPM Select Committee, that business rates are returned to local control but that increases be linked to the annual percentage increase in the domestic property tax in that area.<sup>16</sup> The BCC does not believe that this argument provides a legitimate basis for the setting of the business rate. While this offers some degree of protection against an increasing proportion of local

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<sup>12</sup> Kitchen (2003) ‘*The Consortium for Economic Policy Research and Advice, Association of Universities and Colleges of Canada*’ Prepared for The Consortium for Economic Policy Research and Advice, Association of Universities and Colleges of Canada.

<sup>13</sup> Harry M. Kitchen and Enid Slack (1993), *Business Property Taxation*, Government and Competitiveness Project Discussion Paper no. 9324 (Kingston, Ont.: Queen’s University, School of Policy Studies, 1993); and KPMG, “Study of Consumption of Tax Supported City Services”, a report for the City of Vancouver, mimeograph, 1995.

<sup>14</sup> William H Oakland and William A Testa, ‘*Community Development – Fiscal Interactions: Theory and Evidence from the Chicago Area*’, Working Paper Series No 16 (Chicago, IL: Research Department: Federal Reserve Bank of Chicago.

<sup>15</sup> *Report of the Technical Committee on Business Taxation (April 1998)*, (Ottawa: Department of Finance) at Chapter 2

<sup>16</sup> ODPM Select Committee, ‘*Local Government Revenue*’, Ninth Report of 2003-04 & LGA briefing paper, ‘*The balance of funding a combination option: proposals for reforming local authority revenue*’.

finance being funded by the non-domestic sector, it does not necessarily prevent spending being directed to the domestic taxpayer. It is our view that business rates should be related to the services that are provided for business.

*7. Schemes such as Business Improvement Districts (BIDs) and the Local Authority Business Growth Incentives (LABGI) scheme are positive ways of engaging business.*

Because the BCC believes that changes to the system of local government finance should be dependent on accountability and a relationship to the services that are provided, we are willing to seriously consider changes to local government funding where the necessary accountability is built in. As such, we do support an element of local retention of rates, building on the existing powers for BIDs and the Local Authority Business Growth Incentives (LABGI) scheme.

The BCC suggested Business Improvement Districts (BIDs) as an alternative to the Government's supplementary business rate proposals and we were pleased when this alternative was selected instead for implementation. Although every BID proposal should be judged on its individual merits, a good BID scheme should have the potential to ensure that local authorities engage more effectively with their business communities to improve their areas due to the voting rights of firms. The concept originated in the USA in the 1970s, where numerous BIDs have been successful in revitalising local areas. It is estimated that there are over 1000 BIDs operating in the North America today, with budgets ranging from \$3,000 to \$15m (US).<sup>17</sup> One of the best-known BIDs is Times Square in New York.

The BCC also believes that the Local Authority Business Growth Incentives (LABGI) scheme has the potential to benefit local business communities by focusing efforts on regeneration and policies to encourage business growth. The BCC is fully committed to the regeneration of deprived areas. We would like to see all areas fulfilling their economic potential and we are doing all we can through our Chamber network to achieve this aim. Based on this, it is our view that if this scheme has the desired effect of encouraging local authorities to adopt new business friendly policies in order to achieve economic growth then it will have achieved a welcome aim. LABGI resources should be made to support business growth and not simply to subsidise council taxpayers.

The BCC does still have some concerns about the LABGI scheme. In particular, we would suggest that, if there are to be rewards given for strong local authority performance, there is a case for some form of sanction for those local authorities that do not take the matter seriously enough. Local authorities must be forced to keep businesses at the forefront of their policy-making decisions to ensure that this does not simply become an automatic reward scheme

*8. Alternative Options for Local Taxation*

When looking at possible reform of the local government funding system, it may be judged that other forms of taxation are needed in the future to comprise a 'basket' of taxes and charges.

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<sup>17</sup> British Retail Consortium online

Possible suggestions might include the following:

- localised vehicle excise;
- local sales taxes;
- localised stamp duty;
- land value taxes;
- tourist taxes;
- more charging for services;
- congestion charging;
- tourist Bed Taxes; and
- parking charges.

The BCC does not have a formal view on the creation of a ‘basket’ of new charges. We would caution, however, that for the most part, local authority services should really be met from current budgets. Any proposals to add new charges or taxes would need to be fully costed, justified and judged on their individual merits. They must not add to the already onerous financial burdens on businesses.

When charges of this nature have been proposed in the past, the BCC and the Chamber network have made individual judgments. A good example of this would be the issue of congestion charging. To date there have been three proposed congestion charging schemes in the UK; in London, Durham and Edinburgh. In these instances the BCC has not taken a central policy position but has stood by the position of the individual Chambers of Commerce in question.

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