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Lyons Inquiry into Local Government  
Room 3.12  
1 Horse Guards Road  
London  
SW1A 2HQ

13 March 2006

Dear Sir Michael,

**LYONS INQUIRY INTO LOCAL GOVERNMENT  
CONSULTATION PAPER AND INTERIM REPORT**

The Federation of Small Businesses (FSB) welcomes the opportunity of responding once again to the inquiry on behalf of its 190,000 members. Please find our comments in the document attached.

We trust that you will find our comments helpful and that they will be taken into consideration. The FSB is willing for this submission to be placed in the public domain. We would appreciate a copy of the synopsis of responses and of being kept apprised of further developments on this issue.

Yours sincerely,

**Roger Culcheth**  
**Chairman, Local Government Affairs Committee**



**RESPONSE FROM THE  
FEDERATION OF SMALL BUSINESSES (FSB)  
TO THE  
LYONS INQUIRY INTO LOCAL GOVERNMENT  
CONSULTATION PAPER AND INTERIM REPORT**

**The Federation of Small Businesses is the UK's leading non-party political lobbying group for UK small businesses existing to promote and protect the interests of all who own and/or manage their own businesses. With over 190,000 members, the FSB is also the largest organisation representing small and medium sized businesses in the UK.**

## **Introduction**

The FSB read with interest the Lyons Inquiry Interim Report published in December 2005. Business rates are of course an important matter for our members and we urge the Inquiry to fully consider the impact on small businesses if proposing any reforms to the current system of business rates. This is crucial given that more than 99% of all UK businesses are small, employing 58% of the UK private-sector workforce. As a non-party political group which adopts a neutral stance on constitutional matters, the FSB is not in a position to offer comments on the areas covered by the Inquiry's extended remit. However we would like to take this opportunity to emphasise a few of the key points we raised in our original submission in May 2005.

## **The disproportionate burden of business rates**

1. Britain has some of the highest property taxes in the world, with business rates contributing more than 3.8% of the Government's total tax revenues, over seven times more than Germany. These levels place an unfair burden on the competitiveness of all business compared with our major trading partners.
2. The rates bill is often the third largest item of expenditure. For small businesses the burden is even greater. As a proportion of turnover they pay some three times more than medium sized companies and some seven times more very large businesses.
3. Business rates are one of the few taxes not related to the ability to pay. They have to be paid irrespective of whether a business is making a profit or not, thus hitting small businesses particularly hard in times of economic difficulty.

## **Relocalisation**

4. The Interim Report notes that a large number of business organisations have expressed concern that local control of rates would make bills less predictable and could result in more taxes being paid by business. This is a view shared by the FSB.
5. We consider that relocalisation of business rates would harm business and not achieve the desired aims of those advocating this change. Prior to 1990 such a system was in place resulting in 400 different business rates with hugely differing poundages. Whilst large businesses could choose to avoid areas with high poundages, small businesses did not have the same degree of flexibility and suffered as a result.
6. It is likely that local authorities would be worse off under a relocalised system and could only maintain their present levels of revenue by substantially increasing their business rate or council tax or both. We envisage that the annual increases set by local authorities would be above the rate of inflation, as is the case with council tax. Such a situation would add significantly to the costs of business and act as a clear barrier to business growth.

7. In addition, we fear that local authorities would also look for other avenues through which to raise revenue. The Local Government Act 2003 gave local authorities the power to charge for discretionary services and as a result small businesses are now faced with increasing charges, on top of growing costs for a range of business licences. This problem could get worse if authorities were under pressure to balance their budgets.
8. We agree with the view highlighted in the Interim Report that a local rates system would not be an accountable tax. In many areas the business community is not sufficiently involved in local authority decision making and this democratic deficit would be emphasised if businesses were to paying higher taxes.
9. The FSB broadly supports the existing balance of funding. The current system of a nationally set multiplier together with RPI indexation allows a business to plan its future expenditure with confidence and the single poundage rate provides a fairer distribution of the rate liability. It is also fair, given that the revenue obtained from non-domestic rates is allocated back to local authorities on a per capita basis.

### **Simplicity and Transparency**

10. The FSB would welcome greater simplicity and transparency in the administration of business rates. To the owners of small businesses, the calculation of rate liability, the setting of rateable values and the various rate relief schemes appears complex and disjointed. Many fail to understand that rateable values are directly related to rental values.
11. Anomalies in the current system should be reviewed. As all summary assessments are available on the VOA website, ratepayers can compare the rateable values of similar properties within the same locality. Often for apparently similar accommodation the rate per square metre can vary from property to property. There is also the matter of supermarkets and the absence of windows, resulting in the interior shopping areas of supermarkets attracting a lower rating than the front area of the average retail shop.
12. There should also be greater transparency in local government decision-making on business-related issues. The Interim Report highlights the Local Authority Business Growth Incentives Scheme as a way of encouraging local authorities to promote business growth. However there is no obligation for authorities to spend the money awarded through the LABGI scheme on supporting further business growth, thus it is very unclear how this money is actually being used by authorities. This is therefore a good example of the need for greater transparency to ensure that businesses view local authorities as friendly to the needs of business.

### **Conclusion**

The FSB recommends that:

- Business rates are not relocalised.
- Other ways of funding the non-Exchequer portion of local council spending is be explored.

- The balance of funding is spread from a wider range of sources in order to reduce the overall burden of business rates.
- The small business rate relief scheme should be extended to include properties with a rateable value of up to £25,000.
- There is greater simplicity and transparency in the administration of business rates.
- A moratorium on the annual RPI increase in the multiplier is introduced, which over time would produce a reduction in the burden of business rates in real terms.