

19 January 2007

Sir Michael Lyons  
Lyons Inquiry  
Rooms 3/12  
1 Horse Guards Road  
London SW1A 2HQ

Dear Sir Michael,

**Promoting economic prosperity: considering the implications of Eddington, Barker and Leitch**

The CBI appreciates the opportunity to respond to this latest Lyons Inquiry consultation on the important questions for local government raised in the Eddington, Barker and Leitch reports. The relevance of these reviews to local government funding, governance and convening underlines the importance of the Lyons Inquiry to the business community. We also welcome the commitment to make the Lyons Inquiry findings public at the time of the Chancellor's 2007 Budget Report. This letter provides the CBI's response to some of the key questions raised and gives an indication of the business reaction to each of the three reviews.

**Overview**

The CBI has noted that local government should play a bigger role, and show greater leadership, in promoting local economic prosperity. We also acknowledge that in order to enable councils to take on this 'place-shaping' role they should have greater flexibility from central government. However a one-size fits all approach is unlikely to work since local government structures, economic conditions and the capacity of local authorities to take on this role vary widely. In taking this idea forward the Lyons Inquiry will need to balance the need to offer different solutions to different places with the need to provide businesses with clarity and certainty in the way that local government operates.

The CBI believes that as far as possible the role of councils as 'place-shapers' should be encouraged within existing structures and governance arrangements (taking on board changes likely to result from the Local Government Bill). However we also accept that economic realities rarely fall within administrative boundaries. Where local authorities take decisions that will impact on the local economy they should be encouraged to do so in co-operation with neighbouring authorities at the regional as well as local tier of government. This is likely to be most pertinent in larger cities where examples of good practice in cross-boundary working already exist and where

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there may be a case for greater flexibility. In a recent CBI member survey<sup>1</sup> planning and transport services were ranked highest as being appropriate for some degree of city-level decision-making. However there will be benefits from greater co-operation across boundaries for all local authorities.

The performance of local authorities in promoting economic development alongside social and environmental goals also varies widely between those that have a 'can-do' attitude and those that are less enthusiastic. The solution to this in the short term must be to disseminate lessons of good practice to ensure that the benefits of co-operation and of economic development itself are felt more widely, providing support to councils where necessary.

## **Barker Report**

The CBI generally welcomed the Barker Report, believes that many of the recommendations should be put in place speedily and should be accompanied by adequate skills and resource if the planning system is to improve. We also believe that the culture within planning departments should become more positive in the long term if reforms are to be truly effective. It is worth noting that in a recent CBI survey on public services CBI members were most dissatisfied with local government's record on improving planning services.

## Empty Property Rate Relief

The CBI is very concerned at the recommendation to review empty property rate relief for a number of reasons:

- While we agree that land should be used as efficiently as possible we are not convinced that fiscal measures should or can be used to achieve this end.
- In the majority of cases property remains vacant due to a lack of demand in that location at that time. Increasing the rate of tax on such property will not induce demand.
- There are several valid reasons for property being vacant eg where contamination costs exceed redevelopment value or where there is a delay in planning consent. Removing the relief could lead to the premature or unnecessary demolition of property which would seem to contradict the objective of efficient land use.
- There may be a minority of instances where property is purposefully kept vacant but it is unclear how review of the relief could distinguish between such property and that for which landlords are actively trying to secure beneficial occupation.
- The evidence that has been put forward in the Barker Report to support this recommendation is far from convincing. Any review must provide substantive evidence both on the scale of and reasons for empty property before any proposals are taken forward.

The CBI therefore urges the Lyons Inquiry not to pursue this recommendation.

## Vacant and derelict land

Kate Barker also recommends finding a mechanism alongside business rates to tax vacant and derelict land. While the aim to encourage more efficient use of such land is well intended this suggestion should not be pursued. As a tax system based on rental values business rates are unsuitable for this purpose. Bare brownfield land does not have a rateable value and there would be very little evidence on which to

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<sup>1</sup> January 2007 CBI Public Services Survey

base a rateable value. The CBI therefore urges the Lyons Inquiry not to take this recommendation forward in its final report.

### Incentives for growth

The CBI believes that as part of their 'place-shaping' role local authorities should have greater incentives to promote economic development and communicate the benefits of economic development to their constituents. However, as you are aware, the CBI is deeply concerned about suggestions that the reform of business rates could deliver this incentive. We have highlighted previously the dangers of relocalising the national non-domestic rate and of abolishing the RPI-cap on rates. This position remains unaltered and with inflation at an eleven-year high the need to retain this cap seems ever more important. The business rate bill will increase by around £720million from 2006/07 to 2007/08 due to high inflation in September 2006 - much higher than many businesses will have anticipated. We are also mindful that rates are capped to RPI which is one of the highest inflationary indices in operation. The one level of certainty that Sir Michael can offer businesses is in recommending retention of the RPI cap and not to relocalise the power to set rates.

Any incentives to promote economic prosperity must therefore be implemented at the margins. The CBI supports the principles of the Local Authority Business Growth Incentive while noting that its complexity and scale militate against it being more effective in encouraging councils to more actively promote development. We hope that this can be reviewed and improved following the Lyons Inquiry. We also support the roll out of Business Improvement Districts. While limited in number and scale we believe there are significant benefits from local businesses and councils working together to improve the local business environment. The CBI also sees merit in councils being able to retain council tax receipts from additional housing that is built in their area as an incentive to meet the housing supply challenge and would like to see this idea taken forward.

### Green Belt

The CBI believes that Kate Barker's recommendations that green belts should be reviewed has some merit. Some greenbelt policy was created as long as 30 years ago with an intended shelf-life of 30 years. It therefore seems reasonable for policy to be reviewed to ensure that it remains fit for purpose. The CBI does not advocate the extensive use of greenbelt land but in certain circumstances a review may lead to more sustainable and efficient use of land and this should be encouraged. Local authorities should work with the business community and central government to identify where a review of greenbelt land might be prudent.

### Plan-making

The CBI believes that local authorities should be encouraged to work together across boundaries where it is relevant to do so. This is likely to be most beneficial in plan-making where it makes sense to consider the functional economic area in the preparation of both Local Development Frameworks and Regional Spatial Strategies. The CBI has been encouraged by the involvement of Local Strategic Partnerships (LSPs) in driving the formulation of local development frameworks and is looking into ways of encouraging more business people to become involved in LSPs and in the consultation process for spatial plans. This should also provide a solid basis for integrating spatial planning with housing and transport planning. There may also be benefits from the sharing of some planning functions between neighbouring planning departments for example where a particular expertise exists.

## Independent Planning Commission

The CBI is encouraged by the recommendation in both the Barker and Eddington reports to introduce an independent planning commission to make decisions on major infrastructure projects once the policy has been decided by Government. We are currently working with Government on how this recommendation can best be taken forward through the forthcoming Planning White Paper and consideration of the role of local authorities in this process will be important.

## **Eddington**

The CBI was encouraged by the findings of the Eddington study of transport, particularly for recognising the vital economic imperative underlying investment in both the UK's domestic and international transport network.

## Bus powers

The CBI notes the recommendation in the Eddington study that legislation should be introduced to make it easier for local authorities to introduce bus franchising. While there may be merits in this approach the CBI believes that a more effective way forward would be to encourage more voluntary partnerships between bus operators and local authorities. Such partnerships are already in operation in some parts of the country and achieve benefits without the need to legislate to allow re-franchising.

## Road pricing

The CBI welcomed the comments on road pricing in the Eddington study and particularly the need for a 'pathway' to implementing national road pricing. The CBI supports the principle of road pricing to tackle congestion but believes that any revenue created should be used to benefit road users. The implications of pricing are unclear at this stage and will very much depend upon the nature of the scheme (or schemes) adopted.

## Funding

Investment in transport infrastructure is vital at all spatial levels. The CBI has estimated that £300billion of projects worth at least £300billion should be initiated in the next 10 years to deliver a better transport system. The benefit to the economy from this investment could be worth far more. We are working closely with the Government to improve the planning process for projects of national significance alongside other major infrastructure projects. However the CBI has concerns that regional funding allocations have slowed down the delivery of strategic road projects. Experience of funding for local transport - through the Local Transport Plan process - has been more positive.

## Structure

The CBI endorses Sir Rod's recommendation for Government to consider the case for ensuring that sub-national decision-making structures reflect, as much as possible, patterns of economic activity. We see merit in certain strategic decisions on transport being made according to functional economic areas rather than administrative boundaries but believe that this should be achieved as far as possible through local authority partnerships and existing mechanisms rather than introducing additional layers of bureaucracy.

## **Leitch**

The CBI welcomed the Leitch review of skills particularly for placing employer and employees needs at the heart of the UK's adult skills system. While the CBI will continue to work with the Government on mechanisms for implementing the Leitch recommendations employers are concerned with outputs, not processes. CBI members are not wedded to a particular system and do not want to see another revolution in the skills infrastructure, with all the upheaval that would cause. The priority for business is a comprehensive and coherent system that ensures limited public money is allocated effectively, and that the needs of employers can be accommodated, whether through an individual, sectoral, local, regional or national approach.

### Commission for Employment and Skills

The Leitch Review calls for the creation of the Commission for Employment and Skills, which would replace both the Sector Skills Development Agency (SSDA) and the National Employment Panel (NEP). The new Commission would be responsible for Sector Skills Councils (SSCs) (which would have an enhanced role) and the new Employment & Skills Boards. The Commission would be welcomed by employers, provided it is effectively employer-led and is genuinely a voice for employer views. The CBI has consistently called for the skills infrastructure to be streamlined and for the 'alphabet soup' of skills bodies to be rationalised.

### Employment and Skills Boards

A network of employer-led Employment and Skills Boards, which would be responsible for local labour market and skills issues could add value. The proposals are very similar to those on skills and employment in the Local Government White Paper in October 2006. CBI members would welcome co-ordinated action for cities or similar areas if it helped join-up Government action, but do not want to see another level of bureaucracy. Leitch's proposals would not necessitate increased local authority funding. The new Employment & Skills boards will want to liaise with local authorities about key issues in their local areas.

### Learning and Skills Council

Employers accept Leitch's recommendations for reforming the Learning and Skills Council (LSC). The LSC would retain its role in funding programmes leading to qualifications approved by SSCs and in ensuring quality by identifying providers that can receive public funds. The LSC would also promote effective competition. The proposed demand-led system should give more power to employers, who would determine good programmes and qualifications through SSCs.

### Basic Skills

Despite suggestions that compulsion could be revisited, Leitch is right to have focused on incentives and reforms, rather than compelling firms to train, for which a good case has never been made. As Leitch highlights in his report, a blunt 'one size fits all' form of compulsion is unlikely to be effective.

Leitch calls for a major campaign to encourage all employers in the UK to make a skills pledge that every employee be enabled to gain basic skills and a first level 2 qualification. Large employers are already committed to investing in the skills of their workforces – and we will be working with larger members on the basic skills pledge.

While relatively few larger firms have so far been involved in Train to Gain, this may well be because in order to qualify, employees must not have any level 1 or level 2 qualification. We would argue for more flexibility.

### The role of local authorities

As a major employer, the public sector, in particular local authorities must also drive forward the pledge to ensure that its employees are equipped with at least level 2 qualifications. The CBI believes more demanding targets should be set for the number of 16 year-olds equipped with literacy and numeracy skills. Local authorities, through their education services have a key role to play in helping schools raise their performance where needed.

### Employment and skills

The Leitch Report makes a number of recommendations on Employment and Skills, which are aimed at people not in work to better integrate public provision of basic skills training with support for jobseekers. The CBI agrees good links should be established between employment and skills services. Key players will be Jobcentre Plus and Employment & Skills boards. Their role will be to ensure employment and skills are properly linked and will of course discuss these issues with local authorities.

The CBI has continually emphasised the link between low skills and unemployment and believe that basic skills, together with softer employability skills, are key to re-entering the labour market. There is particularly strong evidence for this with regard to ex-offenders.

However, it is important that we recognise that it is not as simple as bringing people with skills and jobs together. Government also needs to provide ongoing support to those new employees who need it most, such as ex-offenders, lone parents and those coming of Incapacity Benefit, through a variety of mechanisms including childcare and rehabilitation.

### **Conclusion**

The CBI is keen to see improvements in planning, transport and skills, all of which are vital to the health of the UK's economy. This final submission to the Lyons Inquiry highlights the CBI's priorities for change in these areas following the three recent reviews and indicates where local government has a key role to play.

If you would like clarification of any of the points made in this submission please do not hesitate to contact Emma Wild ([emma.wild@cbi.org.uk](mailto:emma.wild@cbi.org.uk) or 02073958141).



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