

THE LYONS INQUIRY INTO LOCAL GOVERNMENT FUNDING

PROMOTING ECONOMIC PROSPERITY: CONSIDERING THE IMPLICATIONS OF EDDINGTON, BARKER AND LEITCH

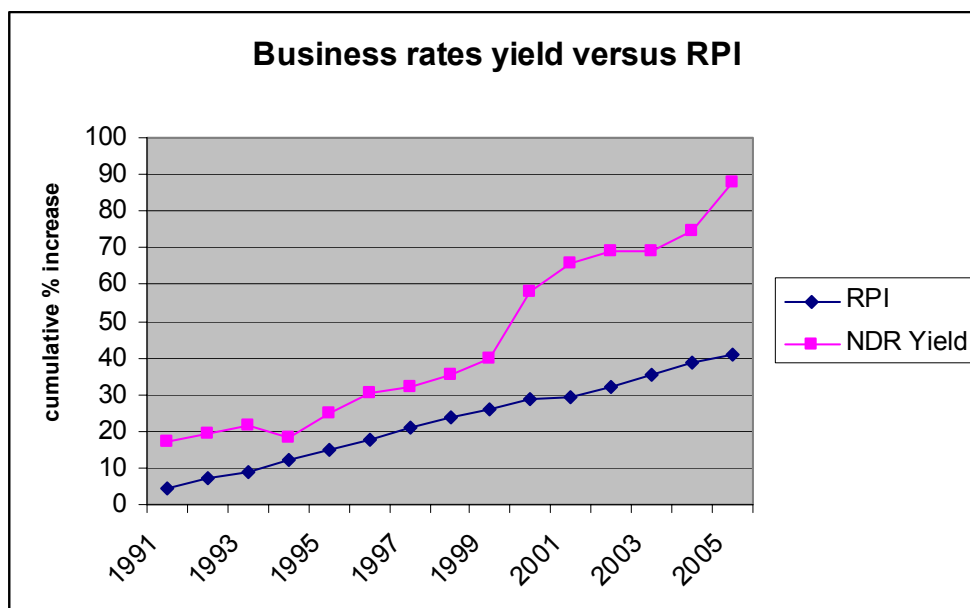
TESCO SUBMISSION: JANUARY 2007

Key points

1. We welcome the opportunity to contribute to the Inquiry's consideration of the implications of the Eddington, Barker and Leitch reviews for local government. In particular we are keen to share our views on the future of the business rates regime, which the discussion document refers to with respect to the implications of Kate Barker's Review of Land Use Planning. We discuss these in more detail below, and would be happy to do so in greater length should that be useful. In essence our key points are:
 - The current business rates system is outdated and should be reformed to ensure a fairer spread of tax liability across business sectors.
 - Rather than being directed at empty properties, business rate relief should be used positively to encourage both energy efficiency and investment in deprived communities

Overview

2. Effective and efficient local authorities, and the services they provide, are important for Tesco and for communities across Britain. Policing, transport, and education are all essential to support the creation of wealth and jobs. UK plc, of which Tesco is an important part, contributes over £20 billion in business rates each year. Tesco alone contributes over £300m per annum.
3. The work of this Inquiry will no doubt be fundamental in shaping the future direction and role of local government and the way it is funded. It therefore represents an important opportunity to consider the challenges that local authorities and the communities they serve face in the 21st century, and how they can be best equipped to meet them.
4. Funding has a key part to play in this and we have a particular interest in the future of the business rates regime. We believe that in many ways this regime is out of date and in need of reform. The system does not reflect the changing nature of businesses today, with the value of property no longer providing a reasonable indicator of profitability. The current system disproportionately impacts on those companies with a large property base, whilst requiring companies such as mobile phone and broadband operators, internet traders and power companies to make only small contributions. As of 2005 for example, 13% of our profits were paid in business rates, as compared to 1% of the profits of a mobile phone operator.
5. It is clear that retailers, with relatively low margins and a relatively high use of property, fare the worst, consistently seeing the level of taxation increase well above inflation. In fact, as the chart below demonstrates, the RPI cap is failing to protect businesses from unsustainable rate increases.



6. The impact on retail is compounded further by the fact that retail planning policy also pushes up the value of retail land and hence the business rates, irrespective of actual profitability.
7. We therefore believe that business rates should be reformed to better reflect today's priorities, and today's businesses.
8. We believe that the way in which businesses are assessed should be reformed to ensure a fairer spread of tax liability across business sectors. This might include changing the valuation methodology for specific property assets or looking at other tax mechanisms for the new economy, for example subscriber numbers.
9. We also believe that business rate relief should be used to encourage investment in our most deprived communities, and in energy efficiency measures and green technologies that will help tackle climate change.
10. We have focused in this response on the two questions relating to the funding of local government and the implications of the Barker Review but our comments build on previous engagement with the work of the Inquiry. We would be very happy to discuss our thoughts on the specific issues covered below, and more broadly on our experience of working with local government, in more detail. In particular we are keen to be involved in forthcoming roundtable discussions.

Questions for Stakeholders: Barker Review of Land Use Planning

What would be the most effective and practical means of creating incentives for local authorities to support appropriate growth?

Climate change

11. Tackling climate change is a huge international and domestic challenge. All parties – businesses, individuals and governments - have a duty to play their part.

12. Tesco is committed to playing a leadership role on the issue of climate change. This includes innovating and investing in sustainable technology; sharing our knowledge; and using our relationship with our customers to empower ordinary people to take action.
13. Local authorities obviously also share this duty. One of the key ways in which they can help drive change in their communities on climate change is through the business rates system.
14. The Social Market Foundation last year produced a report, with support from Tesco, which advocated a business rate relief system that would encourage businesses to improve the energy efficiency and reduce the carbon emissions of their buildings. We would fully support this recommendation and see it as a real way for local authorities to use their position to incentivise and reward positive environmental action. More details of this idea can be found in the report, a copy of which accompanies this submission.

Regeneration

14. Business and local government need to value each other more and work in partnership to build local economies. Tesco has a strong track record of local partnership working through our Regeneration Partnership scheme.
15. We work with the public sector and community groups to tackle the underlying issues of skills and childcare, access and financial exclusion, and have helped rebuild communities and create viable businesses. Over the past eight years we have completed a total of 16 Regeneration Partnerships, creating over 4,000 jobs and helping over 2,300 unemployed and disadvantaged people back into work.
16. However, it is clear that there is scope for further partnership working and a strong role for local authorities to play in incentivising business development and investment in our most deprived communities. We believe that the business rate regime could be used as a key tool to incentivise such investment.
17. We welcomed the introduction of the Local Authority Business Growth Incentives programme and the fact that it enabled local authorities to retain part of the growth in their business rates base. We believe this kind of positive initiative, encouraging economic growth and locally retained revenue through partnership, should be encouraged. However, we do think the scheme is too complex and the revenue gains too low to make a difference to local authority priorities. For LABGI to genuinely incentivise, it would need to have greater resource devoted to it, and provide a simple mechanism for predicting local revenue.

How should the empty property relief in business rates be reformed? How should a charge on vacant and derelict brownfield land be introduced into the existing local land and property tax system? Would any local flexibility on such measures be desirable?

10. Under the current business rates regime, most of the rate relief available rewards those who keep their properties empty or inactive. This represents a missed opportunity. Rather than rewarding economic inactivity we believe rate relief would be much more effectively targeted at encouraging positive environmental behaviour and investment in deprived communities, as outlined above.