

STATEMENT SUBMITTED TO THE LYONS LOCAL GOVERNMENT FUNDING INQUIRY

1. The CBI's main interest in the inquiry is the debate about potential reform of business rates. In brief, business in the North East does not wish to see any change in either the national setting of the rate or the RPI cap.
2. The regional CBI is convinced that localising business rates would both harm business and fail to achieve the objectives of those pressing for it. The strength of business opposition to the introduction of a local business rate must be recognised.
3. We have a general concern that as a tax, business rates are unrelated to profits, add to business costs and penalise business activity, while having no real environmental or similar rationale. But while this fact provides a powerful argument for keeping the rates burden down, business has shown no appetite for moving away from the current system (for which it argued strongly prior to its introduction in 1990) and replacing it with another.
4. We do, however, believe that mechanisms such as LABGI and BIDs can offer benefits for both business and local authorities, and in the case of LABGI, consideration should be given to increasing its scale to ensure effective incentives. There may also be scope to explore mechanisms such as TIF's to see if they are workable and applicable in the UK context.
5. Locally set business rates did not work before. Business had to invest major time and effort in the system but input to local consultation had little impact on the level of rate set. The system resulted in significant costs to business with no discernible benefits. Instead, with annual and frequently acrimonious debates about rates, the relationship between business and local authorities was damaged – and the legacy of this has been significant. The frustration of business with this system led to lobbying for change.
6. The nationally set and RPI-capped rate poundage brings significant benefits to business and the whole economy. It gives business vital protection against unaffordable rate increases and eases planning over both the short and long term. The Uniform Business Rate (UBR) has also achieved a fairer distribution of rate liability, with the national poundage ensuring that bills are more closely aligned to ability to pay than they would be if companies were exposed to arbitrary local variation. Under the previous, localised system, business faced hikes in business rates even during recessionary times, with considerable variability across local authorities. This not only reduced competitiveness but disrupted the forward planning that is necessary for investment and job creation.
7. We believe that the maintenance of the current system, along with the development of mechanisms such as LABGI and BIDs, is essential as part of wider policies to sustain business competitiveness:
 - The nationally-set rate, with total revenue capped at RPI, gives business vital protection against unaffordable rate increases and eases financial planning over both the short and long term. Removal of the cap would only lead to higher demands on business and reduced certainty. ODPM Select Committee figures showed that this policy could have cost business over £3.5 billion extra in rates this year alone.

- The arguments in favour of removing the cap are often based on an unsubstantiated claim that business is in some way not contributing enough, as the share of local government funding paid specifically through business rates, has fallen since 1990. This fails to recognise that business also contributes to local services through national taxation which is then redirected to local government. UK businesses' *total* tax burden is not low by international standards, and Budget policy decisions since 1997 have added significantly to the total tax burden on UK business and investors in UK business. It also fails to recognise that UK business rates, as a share of GDP, appear to be the highest of any OECD country (see table below).
- Major changes now to national non-domestic rates would also add to pressure already being faced by businesses as a result of changes already arising from the Local Government Act. Proposals to make small business rate relief self-funding and the precluding of exchequer funding for transitional relief will raise the rates bills of many businesses. Firms in some areas may also be covered by plans for BIDs.

Business rates or equivalent across the OECD (Revenues as % GDP)

UK	1.80	Italy*	0.40	Czech Rep.*	0.11
US	1.56	Sweden	0.40	Greece	0.11
Australia	1.20	Korea*	0.32	Hungary*	0.11
Japan*	1.05	Finland	0.30	Luxembourg*	0.05
New Zealand*	0.88	Ireland*	0.29	Turkey*	0.05
Poland*	0.65	Austria	0.22	Belgium	0.02
Denmark*	0.59	Portugal*	0.22	Norway	0.00
Netherlands	0.57	Mexico	0.21	Slovakia	0.00
Iceland	0.55	Germany	0.18	Spain	0.00
France	0.54	Canada*	0.14	Switzerland	0.00

The data refer to the non-household share of 'recurrent taxes on immovable property' (category 4120) in 'OECD Revenue Statistics'. * Indicates that a breakdown between households and others is unavailable; here we have assumed that the business share is a half.

8. We also do not believe that the proposals will meet the oft-stated aims of reformers. Given the inevitable constraints, particularly in terms of redistribution and equalisation, a localised system would not solve the fundamental problems identified by local authorities. Without radical changes to the wider system, localisation would merely result in marginal change – it would certainly not represent the freedom for local authorities that some envisage.
9. It is often suggested that localisation will also help to strengthen local accountability. The UBR has not broken the link between business and local government. Indeed, the end of annual debates over the rate poundage has actually helped to *improve* the climate for collaboration between business and local councils. Partnership is now being successfully developed in a host of other ways through, for example Business Improvement Districts (BIDs) and regeneration schemes. Crucially, however, the atmosphere in which these are being proposed and developed could be soured by making business rates once more a politically contentious issue.
10. An important link already exists, of course, in the substantial direct contribution to local government finance made by business ratepayers. This makes a significant contribution to the costs of locally-provided public services from which business benefits. Unfortunately, too often, there is a perception that the only sources of local government finance are council taxpayers and the Exchequer. A greater sense of local government accountability to its business ratepayers would be enhanced by efforts to ensure that explanations of local

government finance always separate out the business rate revenue from the Exchequer Grant and through a perception of greater efficiency of expenditure.

11. Effective and efficient local government is vital. Business relies on local government action in areas such as transport, planning and education to build a good climate for creating wealth and jobs - which in turn are central to local government's success in helping communities to grow and prosper. Business directly funds local government by paying over £15 billion in rates each year and also plays a key role in the supply of council services.
12. We believe that there should be a focus in this debate on broader issues about improving local government efficiency, the role of local government and the relationship between business and local authorities. Rising expectations from citizen and business users of services, budgetary pressure and government targets are challenging councils genuinely to transform service delivery. Here in the North East, the CBI has just launched an initiative to bring public and private sectors together to look at ways of improving public sector efficiency. Work programmes are being drawn up in three areas—public procurement, people management, and entrepreneurship. Whilst this initiative covers the whole of the public sector, local authorities will obviously be important players as we move forward.
13. It is clear that business and local government need to value each other more and work together to build local competitiveness. We recognise the pressing need to improve engagement with local government and we are keen to help develop mechanisms that will genuinely achieve this. As part of this we must raise awareness of the strides forward that have already been achieved – and challenge both sectors to come still closer together.
14. However, we do not believe that localising business rates would in any way contribute to this agenda. Instead we believe that it would harm business by imposing significant additional costs and undermining the ability to plan effectively. It is also likely to impact *adversely* on the relationship between business and local authorities and this is something we must avoid.

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