

March 2005

Introduction

The Hull and Humber Chamber of Commerce welcomes the opportunity to participate in this review. Having consulted our local network which covers 1500 businesses across the Humber sub region, the opinions of business are set out below. We hope that this local perspective helps you in your deliberations.

1. Introduction

1.1 The Chamber recognises that the current system of local government finance is in need of reform. Contacts with the four local authorities in our area have highlighted their difficulties arising from the gearing mechanism and our Chamber members and their hundreds of thousands of employees as citizens in a locality have equally been affected by well above inflation rises in Council tax in recent years.

1.2 There has been a strong focus on local government in the sub-region given that two of our four local authorities in the Humber have been defined as 'poor or weak' in recent Audit Commission CPA reports, and we have sought to work positively and constructively on the appropriate local authority recovery and improvement programmes. We are aware of the implications surrounding a review of local Government finance as well as the potential for a relocalisation of business rates.

1.3 We accept that revenues from the National Non Domestic Rates (NNDR) as a percentage of total local Government revenue have fallen over the last decade, however we would emphasise that our members have not generally received additional or improved local authority services over this period.

2. Key Messages

2.1 The Chamber vigorously opposes the relocalisation of National Non Domestic Rates.

2.1.1 The current national system has been shown to work well since its inception in 1990-1991. The link to inflation level rises ensures stability for a company which allows for effective financial planning.

2.1.2 Members highlight that previous experience of localised rates often caused difficulties and distrust between business and local Government. Regular rates meetings were characterised by both tension and combativeness and not a spirit of partnership. Nationalisation has allowed more positive relationships to develop.

2.1.3 We in no way accept that relocalisation will automatically ensure greater accountability of local Government to business. Businesses are

already aware that they pay a quarter of Council's revenue. Indeed, relocalisation could lead to less accountability as mutual wrangling over the rate set could 'poison' the atmosphere between the two parties leading to mutual distancing.

2.1.4 We also doubt the level of increased partnership working that relocalisation would bring. Businesses have not got the time, technical knowledge or inclination to analyse closely the internal accounts of a local authority, meaning that 'mutual' rate setting would be largely a cosmetic exercise and far from mutual.

2.1.5 Supporters of relocalisation point to the value of increased partnership working between business and local authorities. In our experience with local authorities, statutory working is often characterised by long, jargon laden and ultimately unproductive meetings which tick the 'consultation' box but have little practical effect.

2.1.7 In contrast, our experience in the Humber has been that partnerships with the local authorities often work best on an ad hoc, often informal, basis. The most effective partnerships are driven by a clear and shared purpose, usually for a time limited period.

2.1.8 We fear that relocalisation of business rates would also lead to companies paying different rates in different parts of the 'economic' Humber area. With a disproportionate number of companies operating pan Humber this would lead to administrative complications for individual companies. For other companies it may lead to boundary swapping leading to destabilising effects in the affected localities and, ironically, leading to a diminishing return of business rates.

2.2 Businesses in the Humber are keen to contribute in a responsible and measured way to the area they operate in. Moreover, it is in their interest to do so. We believe that asking business to pay 25% of the local authorities total revenue is reasonable. We agree with the ODPM Select Committee Report into Local Government Revenue when it says that the maximum rate of increase above inflation should be enshrined in primary legislation as a safeguard to excessive rises.

2.3 A point that the enquiry may like to bear in mind is the macro economic effect that above inflation rate rises would have as business passed on the increased costs to customers and this in turn might insert extra inflationary pressures into the market.

2.4 While business recognises its part in local government finance we are also keen to ensure that collected revenues are spent in the most efficient ways possible. While it is neither physically possible nor desirable for business to probe every spending decision made by a local authority, anecdotal evidence across our area indicates that on a number of occasions, optimum spend has not been achieved with a disproportionate time often spent on talking, not delivery. In this sense, and as part of any new local Government revenue regime, business would welcome the establishment of clear and defined baselines about what services a local authority is expected to provide in given circumstances. This is especially pertinent given any move to implement Business Improvement Districts.

3. Funding options

3.1 We have yet to be convinced of the merits of a local income tax and agree with the ODPM Select Committee that '*administration would be costly*' and '*there is still far too little known about the practical implications*'. As our struggling local authorities make strides to put their own operations in order, the hugely challenging technical exercise that a local income tax would involve could serve to distract them from the positive steps these local authorities are attempting to make.

3.2 In its response to the ODPM's consultation on Local Authority Business Growth Incentives LABGI (see enclosed), the British Chambers of Commerce broadly supported the principle of allowing local authorities to retain some of the extra revenue from business rates to finance its operations. We agree with the BCC on this issue.

3.3 We do however feel that it is important that extra revenues under LABGI are ring fenced for economic and regenerative efforts in a locality and not allowed to be spent on other measures. We see this as an ideal opportunity for bodies like the Chamber to develop meaningful partnerships with local authorities in implementing the economic and regenerative efforts and, importantly, this will help foster the accountability that most see as the vital consideration for local government finance.

3.4 Hull was chosen as one of the 14 pilots for a Business Improvement District and the Chamber has been closely involved with the running of this pilot. While some way from a final evaluation of the pilot, initial results have been favourable and we see no reason why Hull cannot now use the BID's legislation and have its own BID.

3.5 With any BID, establishing baselines for core local authority services and what supplementary activities will be covered by a BID is key to making such a scheme work. BIDS must not be seen as propping up dysfunctional public services and must offer real and demonstrable added value.

3.6 If effectively and creatively managed, BIDs could provide a good example of public private partnership and again fulfil many of the concerns about accountability.

4. Conclusions

4.1 We do not favour a re-localisation of business rates and we believe this would do much to damage the improved relations between local businesses and their local authorities in recent years.

4.2 We do however recognise the need for the overall system of local government finance to change, but we would prefer to see the emphasis on specific and more clearly structured initiatives such as LABGI and BIDs where there can be shared vision and agenda between business and local authorities.

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