



255/05

Leeds Chamber

IN BUSINESS FOR LEEDS

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Sir Michael Lyons
Lyons Inquiry into Local Government Funding
Room 3/12
1 Horse Guards Road
London
SW1A 2HQ

14 April 2005

BALANCE OF FUNDING REVIEW and PROPOSALS FOR RE-LOCALISATION OF BUSINESS RATES

We welcome this opportunity to respond formally to the independent inquiry into local government funding and to proposals to re-localise payment of business rates.

LOCAL v. CENTRAL GOVERNMENT FUNDING

We accept that there are issues arising from the current system of raising taxes and imposing levies, particularly the balance between local and central allocations of such funding. The current enquiry into proposals for re-localisation of business rates is therefore welcome, but it must be put into context. Here in Leeds business rates equate to only some 14% of current annual local authority expenditure. In addition, Council Tax accounts for only 10%. The balance and therefore the significant majority, comes via grant from central government and a much wider review is necessary in order to address this clear imbalance.

It is essential therefore that any move to re-localise business rates is handled only as one component within a wider review of local authority funding and not on its own merits. We would seek specific assurance that any adjustment to the current system of business rates is not offset by changes in other funding allocations such that there is no benefit to the net spending power of local authorities.

BURDEN ON BUSINESS

Business contributes substantially to government coffers via an extensive range of direct and indirect taxes and levies, in addition to business rates. It is essential that any re-localisation of business rates does not simply impose an additional burden on business and serve to discourage, rather than foster enterprise. A return to local authority control could tempt local authorities to increase business rates in order to raise revenue to enhance spending power

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without enduring the political pain, via the ballot box, associated with increases in Council Tax.

ACCOUNTABILITY

Business is not opposed to fair business rates but there must be accountability. The current national system (Uniform Business Rate) does provide such accountability and national scrutiny. Returning business rates to local control could effectively avoid any meaningful accountability and we understand why British Chambers of Commerce and other representative groups are vehemently opposed to proposals to re-localise business rates. Prior to 1989 increases in costs under the local system were arbitrary, excessive and unrelated to any benefit provided to business.

Accountability is therefore a key issue, particularly in the circumstances prevalent in Leeds. It is an irony that local government is directly accountable at the ballot box to local residents, who through Council Tax contribute some 10% of annual funding and yet is not accountable to the business community which contributes 14% of annual funding (plus of course the majority of the funding balance through central taxes and levies). It is essential that local authorities are specifically accountable to the business community for delivery of those services upon which businesses depend.

OTHER INITIATIVES

Ideally, we would like to have seen more time allowed to evaluate the impact of other initiatives specifically Business Improvement Districts (BIDs) and Local Authority Business Growth Incentives (LABGI). Both are recent innovations which are designed to increase local spending power and where if successful, there is clear measurable benefit arising for the business community and local authorities. Neither initiative has had sufficient time to make any significant difference.

OPTIONS

Leeds Chamber acknowledges the shortcomings of the current system, together with the lack of other innovative models for levying business rates. The two options appear to be retention of the current system of UBR or re-localisation? Unfortunately, there appears to be no other option under consideration. However, a fundamental review of the whole tax regime would appeal to the business community, linked to the balance of funding review.

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CONDITIONS

Subject to the imposition of the following conditions, we could see the benefit to the local economy of re-localisation:

- Local authorities must be specifically accountable to the business community for the services delivered to business and upon which businesses depend. The same way in fact that we expect businesses to be accountable to customers. Quality and efficiency are obvious key requisites;
- We believe that there may be a scrutiny role for business. We realise that this is potentially fraught and indeed could be considered contentious, but there is a precedent here in Leeds within education, through a public-private partnership known as Education Leeds, which oversees delivery of primary and secondary education in Leeds, whilst direct responsibility for such service remains with Leeds City Council. This model must surely be adaptable to other local authority services;
- There must be a "cap" imposed on any annual increase. This should be restricted to inflation, plus an additional amount specifically agreed in consultation with business, so that businesses as customers understand what services and improvements can be expected for the business rate levy;
- The role of BIDs and LABGI would need to be reviewed;
- Any increase in the spending power available to local authorities as a result of an increase in local business rates must not be offset by a reduction in other local authority income streams. Otherwise the burden of such expenditure would simply be transferring to business.

SUMMARY

In summary, therefore, we have taken a pragmatic approach which may be contrary to the views of other business representative groups. We make no apologies for this as we believe that i) businesses as customers will pay a fair price for a quality, efficient service ii) conversely businesses will become disillusioned as customers if they have no recourse, remedial options or leverage to counteract poor services iii) allocations of central and local funding need to be better balanced, particularly in the light of changing economic policy drivers, including specifically Core Cities, City Regions, and the Northern Way.

Finally, we would be specifically willing and pleased to meet officials to discuss and explore our ideas further.

Tom Morton
President

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