

Small Business Council

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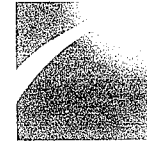
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Sir Michael Lyons
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small
business
council

9th May 2005

Dear Sir Michael,

CONTRIBUTION TO INQUIRY INTO LOCAL GOVERNMENT FUNDING

Thank you for taking the time to come to the Small Business Council's (SBC) March meeting and, as promised at the time, I am writing with our comments and observations for you to feed into your inquiry into local government funding.

The principal issue for the SBC is the possible return of business rates to the control of local authorities (i.e. to re-locate/re-localise), which we strongly oppose. Locally set business rates had not worked before 1991 and had damaged the relationship between business and local authorities, and a return to this position would make business susceptible to unaffordable rate increases, could make them uncompetitive and risk productivity. For these reasons, the SBC opposes re-localisation.

But we also have concerns that the drive for re-localisation is, for some, purely on economic grounds, with no consideration of business views, and that many of the arguments about improving services and schools etc. are not persuasive and do not reflect business opinion.

However, if a new system of financing local government is introduced, it should be accountable, so that local taxpayers (and that includes businesses) should be able to see that the level of tax they pay makes a difference to the level of service they receive. Any new system should also be sufficiently transparent to enable taxpayers to better understand why their particular council levies a tax at the rate it does. In this respect, and if re-localisation is an option, we ask that the new system has strict controls to ensure it does not disincentivise business, with perhaps a profit-based approach to raising revenue from business.

As mentioned when you met the SBC, we recommend that in the course of your inquiry you research how small and large businesses would be represented in local government and how they might be able to influence their local authority's agenda. We offered the London Borough of Tower Hamlets as an example.

We do not agree that there should be mandatory local taxes and we consider that voluntary taxes, such as a tourist tax or green taxes might impose significant impacts on an already fragile tourism industry, or on small businesses more generally. We also note that taxes of this nature could not guarantee local authorities a set income, there would be collection and administration costs, and they will not provide the shift in the balance of funding that the Government requires.

We note that local authorities have no control over a large proportion of their budget, such as the salaries of teachers and for policing, the payment of which can have an impact on local budgeting. The SBC believes there is merit in considering whether these statutory budgetary elements should be returned to central control.

It is our view that the Government must ensure that the Local Authority Business Growth Initiatives Scheme offers real and valuable rewards for those local authorities who engender business growth, for example by allowing them to retain all business rates attributable to their activities to promote enterprise. This might then limit the need to raise significant income from other sources.

The SBC believes that the Government should consider utilising the existing tax collection system, rather than creating new taxes and new collection systems, for example by assigning or transferring a proportion of income tax or VAT receipts directly to councils. We realise that this will not change the balance of funding, but we reach this conclusion because, in our opinion, the revenue raising opportunities and funding needs of local authorities differ so greatly that any change in the current system cannot be made to work without creating inequalities in funding levels that can only be equalised with significant additional burdens being placed on business.

Finally, the SBC noted your invitation to meet again later this year to continue the debate, and we would very much welcome the opportunity to do so.



William Sargent