

LYONS INQUIRY BUSINESS BREAKFAST: BACKGROUND BRIEFING

Monday 21st August, 8.30-10.00 am (breakfast provided),

Newbury Racecourse

Why is this meeting important?

Decisions are being made now about whether businesses should be asked to pay higher business rates and additional charges for some local services. Local government is arguing that it needs more control over how it raises and spends revenue as people demand more and better services from their councils.

At the moment, central government sets business rates annually and the money raised goes into a central pot before being redistributed across the country. Councils are arguing that they should be able to set business rates locally – a process known as '*relocalisation*' – in order to give them greater freedom to increase their revenue and spend at levels the local electorate might want.

Purpose of the event:

Sir Michael Lyons wants to hear business leaders' views on

- What should be the role of local government in promoting economic prosperity?
- What would most attract a business to set up and grow in a particular area?
- How can local government best engage local businesses when developing programmes for improving infrastructure, skills, economic development?

He would also like to hear your views on local government funding, including the use of business rates as well as the wider use of Business Improvement Districts (BIDs), along the lines of Reading town centre BID.

The Lyons Inquiry: remit and timescale

- 2003/04: The Government conducted an internal review into local government funding, the *Balance of Funding Review*
- July 2004: Sir Michael Lyons commissioned to lead an independent review of local government finance and potential reform
- September 2005: Lyons Inquiry remit extended to include the role of local government
- December 2005: Interim report published, analysing evidence so far and suggesting that Local Authorities should have a 'place-shaping' role
- May 2006: Sir Michael published *National prosperity, local choice and civic engagement: a new partnership between central and local government for the 21st century*. Principal focus was greater devolution to the local level and the role of local government as an 'enabler' of economic development
- Autumn 2006: The Government is expected to publish a White Paper on local government, with proposals for greater devolution. Sir Michael's report should contribute to this
- Late 2006: The Lyons Inquiry is due to report to the Government with recommendations on both the role and funding of local government.

Concerns for businesses

Thames Valley Chamber, together with the British Chambers of Commerce (BCC), has been representing businesses' interests and concerns to local councils, Sir Michael Lyons, central government, the Local Government Association (which represents councils) and other decision-makers.

The BCC commissioned a report from the Institute of Public Finance, called ***Building Communities: Business Rates and Local Government***, which was published in July 2006. The independent report provides a wealth of detail which has been missing from the debate so far. Key points from the report were:

- under a range of relocalisation scenarios (for example, business rates rising annually by the retail price index plus x%, where x is defined by central government), business rates in many areas of the country would increase and there would be unpredictable changes in many areas.
- **equalisation** – where account is taken of different authorities' differing abilities to raise revenue from businesses – is a central feature of the current business rate system and would have to continue under any relocalised scheme. However, none of the options for equalisation under relocalisation are entirely satisfactory.
- equalisation also means authorities that would hope to keep a greater proportion of the business rates, such as many in more prosperous areas of the south east and also northern metropolitan centres, would be sorely disappointed and businesses would see little or no benefit for their additional rates.
- businesses already contribute a huge amount to local government finance – £18billion in 2005/06. The business contribution is disproportionate to the cost of services which businesses benefit directly from. Although business rates have not risen as fast as council tax, other taxes, such as Corporation Tax, have increased significantly.
- Business Improvement Districts (BIDs) should be actively pursued as an alternative to relocalisation as they are accountable to businesses and enable them to voluntarily commit extra resources for specific services chosen by them.

Questions from businesses which councils need to answer:

- What would businesses get for any additional rates/charges they might be expected to pay?
- Where would any additional money raised go?
- How would businesses be represented?
- How would Local Authorities be accountable to businesses?
- How would equalisation work with a relocalised system of business rates?

Biography of Sir Michael Lyons:

Sir Michael Lyons comes from a local government background. From 1994 to 2001 he was Chief Executive of Birmingham City Council and before that was Chief Executive of Nottinghamshire County Council (1990-94) and Wolverhampton Metropolitan Borough Council (1985-1990). He was knighted for services to local government in 2000. Sir Michael is also Chair of the English Cities Fund and Acting Chairman of the Audit Commission as well as a member of HM Treasury's Public Services Productivity Panel. He holds a number of private directorships.