



THE BRITISH
CHAMBERS OF
COMMERCE

Lyons Inquiry into Local Government
Place-shaping: a shared ambition for the future of local government

Summary of Sir Michael Lyons' final report
21st March 2007

Background:

The report, *Place-shaping: a shared ambition for the future of local government*, is the final report of Sir Michael Lyons' inquiry into the role and financing of local government. The independent inquiry was established in July 2004, originally to look only at local government funding, but in September 2005 was extended to include the role of local government.

Various interim reports were published by the Lyons Inquiry, including in May 2006 *National choice, local prosperity and civic engagement* which set out the suggested role for local government as being 'place-shaping' and as a convener of local services. It also emphasised the importance of Local Authorities in promoting economic development.

During the summer of 2006, Sir Michael Lyons held a series of round tables with businesses, with three events hosted by Chambers of Commerce, namely Leeds, Thames Valley and Coventry. Businesses were asked to consider whether local government delivers value for money to them and how local services, particularly infrastructure and economic development, should be funded.

In December 2006, the Inquiry was asked to consider the implications for local government of the recommendations made in the Eddington Review of Transport, Barker Review into Land Use Planning and the Leitch Review of Skills.

In the Budget 2007, the Government has provided an initial response to Sir Michael Lyons' recommendations. Both the recommendations and the Government's response are outlined below.

Main recommendations:

Sir Michael Lyons has proposed a 'developmental approach' to change, with short, medium and long-term options. Below are the options that relate specifically to businesses. The Government's response to each option is in italics.

Short-term priorities:

- Increased local flexibility, including through the introduction of supplementary business rates. These would, however, need to be introduced only after thorough consultation with businesses and in agreement with them. The money raised would have to be hypothecated to local infrastructure.
The Government has said that it will examine the options for a supplementary business rate and believes that it has the potential to support local economic

development, but that it needs to be accountable to ratepayers and provide protection for businesses, particularly SMEs.

- Reduced ringfencing within Local Authority budgets to give them greater flexibility, although revenue from supplementary business rates should be ringfenced.

As part of the Comprehensive Spending Review, the Government will look to reduce the amount of funding that is ringfenced.

- Improved incentives, with reform of the Local Authority Business Growth Incentive Scheme (LABGI).

The Government is going to look at reforming LABGI and in any case continue the scheme beyond its initial three years. Proposals are expected before the summer recess.

Medium-term options:

- A power for Local Authorities to levy a tourist tax if local government makes a strong case for this and there is public support. This would only be appropriate for some areas.

The Government does not believe there is a strong case for a tourist tax so does not intend to introduce this.

Longer-term options:

- Business rates could be relocalised, but this would need far greater support and understanding than exists currently. Sir Michael Lyons has judged that now is not the right time to suggest relocalisation, instead the issue that must be concentrated on is how to build trust and accountability between Local Authorities and businesses.

The Government agreed that the National Non-domestic Rate (NNDR) provides certainty for businesses and therefore promotes investment, so will maintain the RPI (Retail Price Index) cap and NNDR.

BCC's position:

- Sir Michael Lyons' recommendation on supplementary business rates is essentially relocalisation by another name. It is hard to imagine any Local Authority turning down the opportunity to raise more money from businesses, with consultation being nothing but a box ticking activity.
- What is being proposed will give Local Authorities the ability to levy an extra rate on businesses without any accountability and no guarantee that the extra revenue raised will be spent on projects that actually benefit those paying for them.
- Business Improvement Districts show the willingness of the business community to contribute extra resource but the difference here is that businesses have a say in how their money is spent.
- Our concern now is that the threat of supplementary business rates leaves BIDs in a very uncertain position: businesses are unlikely to support the development of new BIDs if in a few years time they are to be asked to pay supplementary business rates.
- BCC is, however, pleased that Sir Michael Lyons has not recommended full relocalisation and has recommended that the RPI cap be maintained. BCC, together with the Chamber network, campaigned hard to ensure that relocalisation would not be on the cards.

Next steps:

- BCC's priority now is to oppose the introduction of supplementary business rates which will be an additional tax on businesses, with anything up to 4p per pound being levied.
- We will therefore be lobbying the Government on the issue and responding to any consultation issued.
- We will be trying to gauge what impact on BIDs the proposals for supplementary business rates might have. Will businesses still be willing to consider new BIDs or continue with existing BIDs?
- With the Chamber network, we will be campaigning for reform to LABGI so that revenue is spent on economic development projects. We will also respond to the consultation due to be issued in the summer.

For further information:

The final Lyons report (as a pdf file) can be found online at <http://www.lyonsinquiry.org.uk/docs/final-complete.pdf>

The relevant sections of the Budget are on pages 72-73 (Chapter 3) and 156-157 (Chapter 6) of the Budget 2007, available online at http://www.hm-treasury.gov.uk/budget/budget_07/report/bud_budget07_repindex.cfm

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