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Communities and Local Government Committee

Local Government Finance: Supplementary Business Rate

Seventh Report of Session 2006–07

Volume II

Oral and written evidence

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Communities and Local Government Committee

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Tuesday 19 June 2007

Cllr Merrick Cockell and Stephen Lord, London Councils and Jeremy Skinner, The Mayor’s Office, the Greater London Authority

Karen Dee, The Confederation of British Industry, Dr Julie Grail, British BIDs and Sue Ashley, Town Centres and BIDs Manager, Warwickshire County Council

Lynda McMullan and Nick Chard, Kent County Council, Steve Brooks, Dartford Borough Council, Simon Wiles, City of York Council and Dermot Finch, Director, Centre for Cities

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Oral evidence

Taken before the Communities and Local Government Committee

on Tuesday 19 June 2007

Members present
Dr Phyllis Starkey, Chair
Mr Clive Betts
John Cummings
Mr Greg Hands
Martin Horwood
Mr Bill Olner
Emily Thornberry
David Wright


Q1 Chair: May I welcome you to this first session. Since it is a very complex subject and we are trying to fit a lot of witnesses in to a short period of time we will try and keep the questions brief and we would be really grateful if you would keep the answers brief as well. Would you mind just introducing yourselves?

Mr Skinner: I am Jeremy Skinner. I work at The Greater London Authority. I am the Head of Strategic Projects and Policy Evaluation. My role is to provide advice to the Mayor regarding his strategies and policies as they affect London’s economy and businesses in London.

Cllr Cockell: I am Councillor Merrick Cockell. I am Chairman of London Councils, which is the body representing all 33 local authorities in London. I am the Leader of Kensington and Chelsea Council.

Mr Lord: I am Stephen Lord, Director of Local Government Finance at London Councils.

Q2 Chair: May I start off by asking whether you think that the imposition of an additional levy on the business community through a supplementary business rate is the best way of financing the additional infrastructure that is required in London?

Mr Skinner, do you want to start off?

Mr Skinner: When the Mayor originally responded to the Lyons Inquiry he called for a greater devolution of the fundraising powers to local government more generally. We certainly welcome the supplementary business rate. I would not like to comment on whether it is the best method, but it is certainly an appropriate method which we welcome.

Cllr Cockell: I am Councillor Merrick Cockell. I am Chairman of London Councils, which is the body representing all 33 local authorities in London. I am the Leader of Kensington and Chelsea Council.

Mr Lord: I am Stephen Lord, Director of Local Government Finance at London Councils.

Q3 Chair: If there was an SBR, who should set the rate?

Cllr Cockell: It depends on the variety of variations. I have seen the Mayor’s representation and clearly that is for a regional-only scheme in London. Obviously we would not be supportive of a regional only scheme. If it was on a local level then clearly it would be for the local boroughs to consult with their business community, which I think would be a positive thing anyhow. If there were two SBR schemes running in tandem, but separately, then the local authority would consult with its business community and on the regional side, the GLA and the boroughs would have to find a way of consulting with their community. That would also apply if there were a single SBR where a proportion of it was being divided up and given to the Greater London Authority and the boroughs.

Q4 Chair: Are you describing an SBR that would not be London-wide?

Cllr Cockell: Clearly if there was a regional element to it or a part of it was regional then I think that would have to be London-wide. If there was a local element to it, whether that was a proportion of an overall sum or a separate stream, then I think it would be for that local business community and local authority to decide whether they wanted to levy it and at what level they might want to levy it depending on local needs and the needs of local businesses.

Mr Skinner: I think we are quite clear that there should be a London-wide rate only and for these reasons. Sir Michael Lyons identified correctly that there has been a significant backlog in infrastructure investments, particularly to support city economies such as London. London’s economy is very much one that is interconnected and highly concentrated. Infrastructure investment has to work across London as a whole, as indeed it would have to work
across other cities in the UK as a whole. Therefore, if the SBR is to be applied to London-wide investment then it follows that it should be a London-wide SBR. Quite apart from that, there may be confusions for business if they were faced with one business rate in one borough compared to a different rate in another.

Q5 Mr Hands: I think there is already an understanding out there that the overall take for corporates in this country and in London in particular in taxation terms is too high. I am wondering what kind of impact you think the supplementary business rate might have on London’s international competitiveness.

Mr Skinner: That would depend on the rate at which the supplementary business rate would be set. Clearly we would want to have very significant consultation with businesses to assess what that level might be. I am sure businesses will speak for themselves as to what rate they think might be acceptable. I note that in the public comments so far from the business community there is a discrepancy between their very strong desire for Crossrail—we have been very clear that Crossrail would be the prime candidate for an SBR—and their reluctance, understandably, to see further business taxation. Clearly this needs to be resolved.

Q6 Mr Hands: I think a lot of businesses will look at how taxation in London has gone in the last seven or eight years and see that the Mayor of London’s precept has gone up at a vastly greater rate than the council tax set by London boroughs. I was wondering how much initial opinion you have seen from businesses about whether it should be the London Mayor setting the rate or the London boroughs.

Mr Skinner: I think the initial reaction from businesses was that they would not like a supplementary business rate. They will give their evidence, but that is certainly what one can adduce from their public comments. They are very supportive of Crossrail and they may wish to see an exception if that is the only way in which Crossrail will be built. Certainly, from reading the comments in today’s FT, the Treasury is very keen that there is a business contribution in order for this vital project to proceed.

Cllr Cockerell: We are all supporters of Crossrail, all the London boroughs, so we will take that as a given. I think the danger—and I am not trying to be that political on this—is a succession of grand schemes. If Crossrail is ever paid for and affordable and the SBR element to its funding is really quite small, then there may well be a succession of large schemes, but I would imagine they are more likely to be in the transportation area and it may well be possible to make an argument of benefit across London or benefit over time across London. On the equalisation point, you are quite right, of course. One can see the City of Westminster, with a top rate of 4p, being able to generate over £26 million a year whilst no doubt probably your constituency or certainly Harrow, Redbridge, Waltham Forest, Barking and Dagenham being unable to raise more than £1.2 million. Our view on that is that if there was some form of equalisation—and the principle of equalisation is complicated because there is a perfectly legitimate argument that says if the business community in the City of Westminster takes a decision that they will agree to the schemes being put before them, then why should they not be able to do that—it should remain within London. This scheme should not be used to equalise nationally—
Q8 Chair: Can you just confirm that is the Mayor’s view?
Mr Skinner: On which point?

Q9 Chair: On equalising between London and the rest of the country.
Mr Skinner: A single supplementary business rate for London would involve equalisation across London by its very working. We do not believe that there should be further equalisation with respect to the supplementary business rates to the rest of the UK.

Q10 Martin Horwood: We have heard Councillor Cockell’s view quite clearly. Crossrail clearly will benefit a lot of London authorities if not absolutely all. Are you saying that you want the SBR to be across the whole of London because it will benefit the whole of London and perhaps that future ones might be for projects that would be in one part of London and therefore more restricted geographically, or are you saying it is just an important principle, that because you have a London-wide government an SBR should be levied across the whole of London if it is for any major infrastructure project?
Mr Skinner: The current proposal is that there should be a London-wide business rate, so that would mean all boroughs would pay. However, we would like the maximum flexibility to introduce thresholds, reliefs and exemptions. At the moment central government determines what such exemptions might be. For a supplementary business rate raised at the local level, we believe that the power should lie with the authority raising the supplementary business rate and we will consider exemptions.

Q11 Chair: What sort of exemptions?
Mr Skinner: For instance, Merrick Cockell was concerned about the impact on small businesses. We would certainly consider whether it is right to exempt small businesses, perhaps properties under a rateable value of between £50,000 and £100,000. For example, if it was set at £50,000 that would exempt 85 per cent of business premises within London. The reason for that is that Crossrail predominantly benefits large companies that have a large office community and can be seen from all over London rather than small businesses.

Q12 Martin Horwood: If a future infrastructure project meant the radical improvement of public transport in south London, which needs it, would you imagine that being levied just to south London boroughs or are you looking for a London SBR?
Mr Skinner: I do not think it is easy to distinguish between the principle and the practice. We are quite clear about the purpose to which the supplementary business rate should be applied at least in the first instance, which is Crossrail and therefore we would be looking for exemptions for the reasons I gave.

Q13 Martin Horwood: I am not sure whether that is a yes or no answer.

Mr Lord: I think one of the arguments we would use in favour of a borough-based scheme is it is much more flexible to look at sub-regional solutions, you could base it on the borough and build up, whereas I think the GLA proposition is that it is applied across London come what may.

Q14 Martin Horwood: Is it? Putting it in your terms, if you want to have exemptions, would you do geographical exemptions for boroughs that were not benefiting from a particular project?
Mr Skinner: With regards to Crossrail—

Q15 Martin Horwood: No, just in general. Let us assume it was something less obviously universal than Crossrail.
Mr Skinner: We would certainly want maximum flexibility to introduce as many exemptions as we felt necessary including those based on geography, if that was required.

Q16 Chair: Let us look at this idea that you might have a borough-limited SBR. If you did have that, how would the money be divided between the borough and the Greater London Authority in your model?
Cllr Cockell: You could not do that. You would have to have one of the other versions I gave of it. If it was just a borough level then it would be a decision made by those communities. That is what is being offered to the rest of the country. This is where I think Michael Lyons has got it wrong. He is saying that upper tier authorities can put proposals to their local businesses that the businesses can go with or not, covering a whole variety of local need, but that London is in some way different—and we would all agree London is different—and can only be dealt with on a regional basis. So this upper tier, which to all intents and purposes boroughs are, except we have the Mayor strategically above us, under Michael Lyons’ proposals, would be able to put forward the very things that all the rest of the country’s upper tiers will be coming up with that have an immediate and direct effect on the local business community.

Q17 Mr Olner: Let us try and clear this confusion. I can understand the SBR being used for huge infrastructure projects like Crossrail and what have you. That still leaves the boroughs free to do business improvement in areas, ie the extra policing and extra cleansing and so on. The two could run in parallel, could they not? I would not like there to be some confusion that it is just one and nothing else.
Mr Skinner: They certainly could. With our proposal we would envisage business improvement districts being set up in the same way that they do now successfully.
Mr Lord: London has been very successful so far in terms of business improvement districts. I think we have 16 up and running. We have not had any votes against. They tend to be pretty small scale. They are for particular central areas or particular localities. In terms of the vision from Lyons of authorities being
much more involved in place shaping, you would need to have the business improvement district at a borough level.

Q18 Mr Olner: I am trying to envisage myself as a ratepayer and the bill dropping through the door and instead of the county council rate, the police authority rate and the borough rate there will then be a supplementary business rate put on and a business improvement district rate. There could be five or six levies on your rates bill.

Mr Lord: That certainly could be the case. The central criterion for either the business improvement district or the supplementary business rate is that it is done with the agreement of business organisations and business ratepayers. In that sense it is the different levels of taxation but also the range of services that are directly benefiting businesses. The experience of business improvement districts so far is that businesses have been quite willing to give their support. The other point to make in relation to the business improvement districts is that they are subject to a very restrictive voting system, the so-called dual key voting system, where the majority of businesses, both in terms of numbers and rateable value, have to support the business improvement district. So it is quite a restrictive threshold in terms of the voting arrangements with business improvement districts.

Q19 Mr Hands: It is certainly my view that there will be big opposition from businesses pretty much across London, especially if there is power given to the Mayor. You mentioned BIDs. We have a BID in my constituency which works quite well because the businesses are given a role in deciding where the money will be spent. If the GLA is opposed to there being any sort of ballot, which you mention in your written evidence, what sort of proposals would you have for businesses to be given a say in where the money is spent?

Mr Skinner: We would consult with businesses in the same way that the GLA currently consults on its capital spending programme. The GLA is required by statute to consult on all of its policies and strategies and our proposal is that we would consult with businesses extensively in a very similar way.

Q20 Mr Hands: Are there no specific plans to allow any of these people having the levy put on them to have any say in where the money is spent other than a very loose consultation about the general principles?

Mr Skinner: And we are quite clear that in practice we would be consulting on a proposal to construct Crossrail where there is widespread business support. The CBI, London First, 20 per cent of the FTSE 100, the Institute of Directors and many other business representing organisations are fully in favour of Crossrail. The key question will be the extent to which they are willing to contribute to what would be the largest civil engineering project ever undertaken in the UK.

Q21 John Cummings: Perhaps you might be able to tell the Committee how achievable Sir Michael’s aspiration is that the 33 London local authorities and the GLA might agree on a single supplementary rate. How do you think that agreement could be reached on spending priorities? I note you are all grinning like Cheshire cats!

Cllr Cockell: It is just practical experience coming to the fore. I think it is entirely conceivable that we could reach an agreement.

Q22 John Cummings: I understand it is conceivable. I am asking whether it is achievable.

Cllr Cockell: The legislation must be clear. In London we would all want to get value. No doubt the Mayor will want to reach an agreement to get value out of it to go to Crossrail and the boroughs will want to get value out of it to go to local schemes that need to get support from the local businesses. Surprisingly, we are working ever better with Mayor Livingstone. It will be a different Mayor after next May so one has to talk about the office. Certainly with the legislation going through Parliament at the moment we have been able to discuss and reach some settlements with the Mayor. So it is not inconceivable.

Q23 John Cummings: I understand it is conceivable. Do you think it is achievable and feasible that the lion will lie down with the lamb in relation to reaching an agreement on spending priorities or are we all just wasting our time?

Mr Skinner: There is already virtually unanimous agreement between the boroughs and the Mayor and the London Assembly. London MPs also signed up to the Mayor’s campaign for Crossrail. That is the only proposal that the GLA has put forward so far for a supplementary business rate. So in that sense the agreement has already been reached.

Q24 John Cummings: It might help the Committee if you could perhaps explain to us what mechanisms for cross-London collaboration exist at present which might be used as a model for securing agreement on a supplementary rate and joint spending plans in the future.

Cllr Cockell: The current system is that I meet with the Mayor, on behalf of the 33 authorities, formally and informally on a regular basis. I think, and we have had discussions in a variety of areas about this, that this is an unsatisfactory arrangement for London. We have discussed this with the Mayor and for a variety of reasons he thinks it is quite a good idea. I will leave you to guess what the reasons may be. The borough leaders could form some sort of senate for London and meet formally with the Mayor, not on a weekly basis but in public session with other key London figures and discuss the major priorities and indeed decide the major priorities for London, because quite clearly there are areas where we fundamentally agree with the Mayor on the overall funding for London. There could be a lot of positive work coming out of the Mayor chairing the borough leaders and discussing the key policies for London and reaching agreement. If there was a pool
of pence, between one and four, and an agreement had to be reached about what number of pence went to Crossrail and what went to local discretion, then I believe that that could be sorted out at that London-wide level.

Q25 Mr Betts: Crossrail keeps coming up so we had better focus on it. It is a pretty long-term project. Presumably there will be money borrowed to fund it and there will be a timeframe for paying the interest back. That takes an awful lot longer than the supplementary business rate that can be raised. How can anyone be confident the supplementary business rate can play a part in the long-term funding of a project like Crossrail?

Mr Skinner: Detailed discussions are going on between Treasury, TfL, Network Rail and the GLA about the funding of Crossrail. Until we know what the contribution will be from central government when they set out their proposals in the Comprehensive Spending Review it will not be entirely clear what the contribution expected from business would be.

Q26 Mr Betts: But it is clearly going to be a much longer-term commitment than we are currently talking about for a supplementary business rate agreement.

Mr Skinner: It is going to be a very substantial amount, which will translate into quite long term, yes.

Cllr Cockell: This is one of the problems. Crossrail is at least £16 billion and the most that an SBR at 4p across London and certain sizes of business only could raise is about £500 million per annum. One part of the SBR is that it would be time restricted. Three, four or five years is the BID level. So you would need a succession of support, ie three, four or five-year chunks at a time from business in London that they still wished to continue with the funding, with all the money going to Crossrail if Parliament decided that the GLA proposal was the right one to adopt.

Q27 Mr Betts: Presumably you have another slight problem in that you have to wait until the Treasury decides how much they are going to put in. If the final element is the contribution from the supplementary business rate but that is limited and, like every other infrastructure project, Crossrail goes over-budget at some point, where is the leeway to pick the difference up?

Mr Skinner: There is already very significant contingency built into the £16 billion figure that Merrick Cockell outlined.

Q28 Mr Betts: And you will be out of a job by then!

Cllr Cockell: I think we all might be! I think I would look to the 2012 Olympics, if business was to be the direction we went down, as being the way of doing that. The London council taxpayers’ contribution from the Olympics of £625 million to my knowledge is capped at that and that was the agreement that the Mayor reached whatever the overrun, if there are any overruns, on the overall budget. I cannot think, if this was going to be a way of funding Crossrail or any other major scheme, that the risk could rest with the business community in London.

Q29 Mr Betts: One of the aspects of the supplementary business rate that might seem to be attractive is that as and when issues arise that the business community think needs to be addressed, over and beyond the commitments that the boroughs can make with their existing revenue, the supplementary business rate is there to enable a response to those. If it all gets locked in to something like Crossrail, does not one of the attractions of the flexibility of the supplementary business rate mean there is no more to spend on those sorts of issues?

Cllr Cockell: I would agree with that entirely.

Mr Skinner: It would depend on if there were an additional measure which businesses supported and whether an additional rate could then be supported by the business community.

Q30 Emily Thornberry: I was interested to see in your written evidence that you have said on conservative assumptions London’s net contribution to the national purse, which is taxes generated less public expenditure received, is estimated at anything up to £20 billion a year. Given that we are struggling to establish Crossrail, presumably in those circumstances you would not expect the SBR revenue raised to be shared in any way between London and the rest of the country. Presumably you are not in favour of any equalisation?

Mr Skinner: Not with regards to the supplementary business rate. That also points out the reason why indeed we would prefer Crossrail to be paid through other means, but obviously the Treasury is requiring a contribution from London businesses.

Chair: Thank you very much indeed. If there are additional points that are not in your written evidence that you want to add afterwards, please do write in with those.
Witnesses: Ms Karen Dee, Head of Infrastructure, The Confederation of British Industry, Dr Julie Grail, Chief Executive, British BIDs, and Ms Sue Ashley, Town Centres and BIDs Manager, Warwickshire County Council, gave evidence.

Q31 Chair: We are missing the Leeds witness because of the vagaries of the rail system. Apparently the rail system stopped at Peterborough this morning. Perhaps the three of you could introduce yourselves.

Ms Ashley: I am Sue Ashley from Warwickshire County Council. I am leading on the Warwickshire BIDs project; I am also a Board Director on the Association of Town Centre Management.

Dr Grail: I am Julie Grail. I am Chief Executive of British BIDs, which is a national membership organisation for formal BIDs, developing BIDs and interested stakeholders across Britain.

Ms Dee: I am Karen Dee. I am the Head of Infrastructure at the CBI.

Q32 Mr Olner: May I ask what the income from the Rugby BID is being spent on?

Ms Ashley: We are raising £5 million over a five-year period, which really is very substantial money for a small town with a low rateable value. The projects are an integrated security system, which is basically a brand new, state of the art CCTV system that incorporates automatic number-plate recognition and it incorporates the retail and radio links for day- and night-time schemes. We have a programme of street sweepers who provide various roles. One is that they provide an ear and eyes service for the police. They do a roll call with the police in the mornings. They are meeters and greeters to the visitors of the town and to the workers and they provide business support. We also have a specialist cleaning service and that is where the group go out and steam clean the streets on a daily basis and get rid of chewing gum and graffiti so that the place is really spotless. We also have what they call a ‘hit squad’ service and that is where they go out and clean shop fronts as well.

Q33 Mr Olner: Are the BID monies levied over the whole of Rugby or just Rugby town centre itself?

Ms Ashley: It is Rugby town centre. We have about 680 businesses within the BID area contributing. We have about £150,000 a year to spend on marketing, promotion and events, whereas with town centre management voluntary schemes that was probably about £5,000 in a good year.

Q34 Mr Olner: Rugby is a pilot, is it not?

Ms Ashley: We were part of the ODPM/ATCM (Association of Town Centre Management) national pilot scheme. Basically we used Rugby to set a framework for other business improvement districts across Warwickshire.

Q35 Mr Olner: How quickly do you think you will be able to roll those out? I speak with an interest as I represent Nuneaton.

Ms Ashley: We have developed our own feasibility and development toolkit. Basically the feasibility looks at the rateable value of an area, the sorts of monies that could be generated through a business improvement district, the sorts of initial projects that could be developed and then the staff resources that it would need to go on to the development phase.1

Q36 Mr Olner: Warwickshire is a very diverse county from the northern end to the southern end. Obviously the rateable value in places like Stratford-upon-Avon, Kenilworth and Leamington Spa is far above the Rugbys, Nuneatons and the Bedworths. Do you see a difference in tailoring a BID project for, say, the northern end of Warwickshire to the southern end of Warwickshire?

Ms Ashley: In terms of rateable values, there is not a huge difference. It does depend as well on the actual catchment area that you use for your BID. This feasibility study looks at the actual rateable value of that area and what the BID could deliver and then it looks at the mechanism for the consultation and actually getting businesses to put a tick in the box to say they want to pay. The principles of the BIDs are pretty much the same and that is why we are rolling it out with a structured programme across Warwickshire. We have carried out feasibility work in Stratford-upon-Avon and Leamington and we are now going down the development route where we will look to get the projects sorted, the business plans pulled together, service level agreements with the local authorities pulled together and the BID companies established. In terms of principles, it does not matter particularly whether it is the north of the county or the south of the county.

Q37 Mr Olner: Do you find that enthusiasm is growing within businesses to have BID areas?

Ms Ashley: It is. One of the real benefits of BIDs is that they are led by the business community and managed by the business community. The local authority’s role is about facilitating and helping BIDs happen, doing the behind the scenes work and the training and getting people up to speed with what BIDs are about. That is really why the businesses are quite keen now to put money in to the business improvement districts, because they are projects that they actually see as being a priority for their own trading environment and that are really going to make a difference to their turnover and footfall within their location.

Q38 Mr Olner: I know you were all in the previous evidence session. Can you envisage the SBR working in a county-wide area? Are there not any huge infrastructure things that counties or districts should be doing where an SBR should be levied?

Dr Grail: I think the key things about BIDs and why BIDs are working currently is because they are genuinely local. When we say local we mean a locally defined geographical area of a town centre or commercial area where you are talking about a maximum of only 500 or 600 businesses often. The discussion that has gone on before us about local is actually local on a borough basis or even wider. So

1 Note by witness: It is likely to take about five to seven years for main towns and a selection of industrial areas.
We mean genuinely local. They are highly accountable and the governance is wholly set within the private sector. It is set up as an independent company limited by guarantee and it is managed and governed by the businesses that pay the bills. That is why they like it. That is why they believe in it and why they are voting for it. In terms of voting, there is an affordability test in there. There has already been a reference to the dual key voting system. There is a formal process that has to be developed for the ballot and there is a real test about whether that levy is affordable by virtue of having to achieve a majority vote both in number and majority of rateable value. That is important to ensure no big businesses are hijacking or no small businesses are hijacking. It is also highly manageable and on a fixed term; it is a maximum of five years. So there has to be very significant accountability year-on-year back to the businesses to ensure that there is definite value being shown. We have had one renewal ballot go through in London in February. That is the first to go through into a second term. They increased their majorities and they increased their turnout. They demonstrated direct value to their businesses. There is also a key thing about transparency and that is that it is businesses managing this and paying for this. A lot of what the BID proposal is about is a very clear business plan that is very tangible. It is the types of things that Sue mentioned. It is tangible security, cleansing, specialist activities relevant to that area, marketing, promotion, things that businesses can definitely see or indeed calculate as a direct saving year on year. The final point to say is direct benefit. Some of the services that we are seeing are about a scheme that might have been seeing are about a scheme that might have been a reference to the dual key voting system. There is a formal process that has to be developed for the ballot and there is a real test about whether that levy is affordable by virtue of having to achieve a majority vote both in number and majority of rateable value. That is important to ensure no big businesses are hijacking or no small businesses are hijacking. It is also highly manageable and on a fixed term; it is a maximum of five years. So there has to be very significant accountability year-on-year back to the businesses to ensure that there is definite value being shown. We have had one renewal ballot go through in London in February. That is the first to go through into a second term. They increased their majorities and they increased their turnout. They demonstrated direct value to their businesses. There is also a key thing about transparency and that is that it is businesses managing this and paying for this. A lot of what the BID proposal is about is a very clear business plan that is very tangible. It is the types of things that Sue mentioned. It is tangible security, cleansing, specialist activities relevant to that area, marketing, promotion, things that businesses can definitely see or indeed calculate as a direct benefit to them. Some of the services that we are seeing are about a scheme that might have been run before in a different way but not wholesale across an area or indeed could not be set up because there were not economies of scale and by virtue of delivering it through the BID a business is making a direct saving year on year. So the BID levy becomes an investment in that area rather than direct expenditure year on year. The final point to say is what is very important about BIDs and the difference between what BIDs are doing on the ground compared to what an SBR would do is BIDs then, through the nature of that governance, are holding local authorities to account in terms of services on the ground. There has to be a baseline agreement signed up ahead of the ballot. Businesses need to be able to have confidence and reassurance that that is going to stand up to scrutiny so that what they are delivering and paying for is genuinely above the existing commitment that they pay in business rate. I wholly believe that that is why BIDs work. Let me pre-empt the next question, ie could BIDs work alongside an SBR? In some cases possibly, if there was a genuine strategic infrastructure element across an area for an SBR, but I think the only way businesses would support it, if they are already paying a BID, is if their BID levy element is exempt from the SBR. They are not going to pay twice. If we use the example of the new West End Company in the centre of London, in Oxford Street, Regent Street or Bond Street, their threshold for rateable value is £250,000. So no business under a quarter of a million pounds is paying. That means the businesses that are raising £2.1 million a year in the BID levy are paying significant sums. They will not pay twice.

Q39 David Wright: Does that mean you believe that if the SBR is introduced it will threaten the existence of BIDs and it would actually collapse some of those schemes around the country?

Dr Grail: Yes. We are talking about, in many cases, very, very price sensitive areas of business. We tend to avoid talking in percentages when you talk to the businesses and during consultation because it does not mean a lot to them. The norm on a BID levy is one per cent of rateable value. In small businesses that can end up being only £100 to a business and up to £400 or £500 for a medium-sized business. That will make a big difference to them. Although we have a good success rate on ballots so far, we have 45 BIDs across the country, a lot of businesses are still voting no in those ballots. The turnouts are okay but not fantastic. The majorities are getting better and better, but there are still a lot of businesses uncomfortable about the charge. What we have to demonstrate as BIDs go forward is direct benefit. We are beginning to do that. I can tell you as somebody in my team who developed BIDs on a daily basis, even if you get a very successful ballot, as soon as the bills hit the doorstep you get a huge amount of calls from people who are unhappy about that bill, those that either did not vote or voted no. So there is a real price sensitivity there. BIDs are working now and can continue to work, but they will be hugely threatened by an additional levy sitting on a bill.

Q40 Mr Olner: This money is added on to what the local authority should be doing anyway. How do you get that benchmark established?

Dr Grail: With great difficulty. There has to be some pragmatism. There is a very detailed process during the development process, ahead of the ballot, between the BID team and the local authority services to set out what the obligations of the local authority currently are, what the expectations are in each contract stream in relation to direct cleansing etc, etc. That is all set out in the legal agreement that both parties sign up to. There have been some very good examples where already, since BIDs have been established, there was a threat to a reduction of service and the existence of that agreement and the existence of the BID has prevented that service from being cut or there has been a reassessment of the delivery of service such that the BID levy is still genuinely additional to that statutory minimum and that is critical. That is why businesses vote for this. It is new money and it is new money that they can direct into their area.

Q41 Chair: If you could offset a BID levy from the SBR and the SBR was introduced, would that ensure that the BID survived?

Dr Grail: Possibly. I do not think it is a guarantee. The next stage of that then does start suggesting that we know BIDs are working because those that are paying are governing. As we have already heard, the
concern about SBR is that it is money going in to the public sector with little reassurance at the moment that businesses would be governing the direction of that spend.

Q42 Mr Hands: I want to ask if you have strong views on the merits of SBR versus the merits of the re-localisation of national non-domestic rates. Sir Michael Lyons seems to have excluded re-localisation as an option for all kinds of reasons. I am just wondering what your views on that might be.

Ms Dee: The CBI has been opposed to the re-localisation and principally that is because of the certainty that the UBR provides to business in terms of its planning and what the rates bills are going to be. Over a number of years we have supported the continuing use of the UBR. In terms of the supplementary business rate, businesses are not particularly keen to be paying additional contributions, but I think, as we set out in our memorandum, there is a growing willingness, as we have seen through the BIDs, to invest in specific projects where they can see that there is a genuine value to the business in the local community or to the local economic area. Out of the two, certainly the supplementary business rate would be more acceptable to business than re-localisation.

Q43 Martin Horwood: Is that not a little contradictory? In effect SBRs are an element of re-localisation. They are the ability for different areas to be paying differential rates and they would contribute somewhat to uncertainty in business.

Ms Dee: I think the difference for the supplementary business rate is that our view is that that would have to be subject to a vote; it would have to be for specific projects that are well defined, rather like the BID models. So in our view it is not the same as re-localisation. It is there for a specific purpose. It should not be seen as an across the board additional tax on local businesses.

Q44 Mr Betts: But you would say that, would you not? Businesses have a pretty good deal, have you not, at present? All the council taxpayers are paying each year council tax increases in whatever authority they are in, which are almost without exception, beyond the rate of inflation and there is business paying its business rate set at the annual rate of inflation each year and every year businesses contribute a smaller and smaller amount to local taxation. Is that fair?

Ms Dee: I would not comment or whether or not it is fair. I think what we appreciate is that you cannot just look at business rates in isolation. The overall burden of taxation on corporate businesses has to be taken into account.

Q45 Mr Betts: The council taxpayer cannot look at their tax in isolation. They have to look at their income tax and VAT and everything else as well. Why should business be different?

Ms Dee: I am not here to speak for the council taxpayers. We have supported the uniform business rate because it provides certainty. We appreciate that the RPI cap is relatively unique in terms of business taxes, but it provides that certainty. The overall contribution of businesses not just through business rates but to the Exchequer is a considerable burden and that is not something that we would want to see challenged or increased greatly without specific benefits.

Q46 Mr Betts: Is the reality not that business now is becoming increasingly less and less interested in what happens in their locality because the local council’s decisions do not affect how much businesses pay, so that divorce is just growing wider and wider? Would an SBR not bring back some connection between what happens in a local area, how much businesses pay and the decisions of the local authority?

Ms Dee: I suppose to some extent you could say there is divorce. I would offer the contrary view, which is that taking those annual fights away from the localisation debates has improved the relationship between businesses and local authorities in some areas. It is not true to say that the relationship is bad everywhere. It is better in some areas than in others. You could foresee that a supplementary business rate would be a mechanism for encouraging greater participation and that is one of the benefits that we have seen through business improvement districts. That is why businesses engage and that is why they work, because there is a mechanism that everybody feels they have a part in.

Q47 Mr Betts: You are saying there has to be a ballot. The council taxpayers do not have a referendum when their council tax is set. They go to the ballot box, but they have no say in the amount of charge they are going to pay. Why should businesses have a special arrangement where they can determine whether they contribute? I can understand why they should be consulted. Why is it necessary to have a ballot?

Ms Dee: The issue of trust and engagement is key to the success of any of this. If we want to avoid returning to areas where you just have a poor relationship between businesses and the local authority then you need to build that trust. In our view a vote would be the only way of achieving that. I suppose you could also say that local council taxpayers do have the opportunity to vote for their local council which businesses do not have.

Q48 Mr Betts: The way the whole business rate is structured in this country means that there really is not that link between business coming into an area and the area benefiting in terms of revenue. You see it in other European countries. In Germany a local authority can give permission for business development in its area and it gets a return through its local financial coffers from that business being in the area. That means that authorities are more interested in going out and encouraging and attracting in inward investment. Is there not a problem in this country in that there is not that relationship, the authorities do not get the financial benefit of attracting new development in?
Ms Dee: I am not an expert on that particular issue. It has been one of the criticisms. If my understanding is right, the local authority business growth initiative was one of those albeit smaller scale initiatives designed to try and encourage local authorities by allowing them to do just that.

Q49 Mr Betts: Has it had any effect?
Ms Dee: I could not tell you how much it has raised, but certainly the general view seems to be that it is, albeit small scale, a positive mechanism which probably needs further debate.

Q50 Chair: Your suggestion about a vote before the imposition of the supplementary business rate, is that not just like an enormous BID?
Ms Dee: It probably is, yes.

Q51 Mr Oner: There is a connection between what a local authority does and what business gains from it. BIDs talk about if you want better infrastructure than is there at the moment, but you have to get that infrastructure there in the first place. How do we get this connectivity again with business and the local authority in providing infrastructure? Is it going to be through the SBR route or should business rates come back to local authorities to levy?
Ms Dee: Our view is that we would not support re-localisation. The supplementary business rate is something that businesses might be prepared to consider for specific projects, if they felt that it was a well-defined project in their area and they had a vote on it.

Q52 Emily Thornberry: Certainly the experience in my local authority is that my local businesses feel that the local authority ignores their interests because it makes no difference to them what happens and they complain a lot about the fact they do not have a vote nor are they successful in making any difference to my local authority. Surely it is not simply the experience in Islington.
Ms Dee: I think that is true. There is an issue about the relationship between local authorities and it is something where a lot of businesses are keen to engage further with their local authorities and they want to work together in partnership to improve that local area. That is why we think that these BID schemes are working.

Q53 Martin Horwood: Obviously one of the things about BIDs is that they are run by the private sector and you have welcomed the flexibility that that entails, so the money can be spent on security and CCTV or it could contribute to infrastructure projects. Would you like to see the same flexibility for the SBR or would you like local authorities to be more restricted in what they can devote monies to?
Dr Grail: I think it has to be kind of cause and effect. Part of the concern coming from the business is that if there is too much of a broad-brush approach on SBR, and too much flexibility and no voting mechanism and it is merely through consultation, then what businesses say during the consultation either may not be listened to or may be listened to but can be changed during the period of an SBR implementation. Giving businesses a direct say in the development process and delivery has to be critical and that is why BIDs work. You have to be able to find a way of ensuring that either the SBR, once established, can only be spent on predefined things or the businesses can continue to have a direct say on the governance of that spend. That is the only way that businesses are going to be genuinely happy that their money is being spent on key priorities.

Q54 Martin Horwood: Let us assume, as seems to be common throughout, that it is going to be on a predefined project and that there will be some kind of formal approval process, maybe a vote or something like that. Would you then want to restrict SBRs or would you be happy to see them spent on infrastructure or on security?
Dr Grail: You have to have some flexibility to enable you to manage change. In the BID companies we have governance arrangements which set out a set of variation mechanisms such that against that existing business plan that has been voted in certain variations year-on-year, usually 10 per cent against the budget themes, can be made to reflect that changes are occurring due to external factors. You will not be able to have wholesale change during that term because businesses then are paying at the end of a term for nothing that they voted for.

Q55 Martin Horwood: That is accepted. For instance, the British Chambers of Commerce have said that: “...businesses would only consider an SBR for investment in transport infrastructure”. Would you disagree with that? Do you think there should be more flexibility than that?
Ms Ashley: I think that with BIDs, the key reason that business contributes to them is because they are specific projects that are going to enhance their trading environment and that money is totally ring-fenced and goes into a private sector company. Part of my thinking is that I cannot see at the moment how the local authorities would convince business to contribute towards projects either on a localised basis or on a broader basis.

Q56 Martin Horwood: Are you saying you would not want it used on something like transport infrastructure?
Ms Ashley: I do not know just at the moment. That could be a possibility but I do not think that you would convince business to pay a rate towards that.
Emily Thornberry: You can have other things. Businesses want local authorities to stop doing things. Again, in Islington there was a huge row when they introduced the parking restrictions, so that had a very bad impact on local businesses, but they felt their voices simply were not heard because they did not pay the local rates.
Chair: Emily, I think that is getting beyond the discussion.
Emily Thornberry: We are talking about accountability and the reason for a business rate is so that there can be some sort of accountability between local authorities and businesses. There are both sides to it and that is why I think that is interesting.

Martin Horwood: A select committee is not the place to attack particular local councils.

Emily Thornberry: I just think it is a very good illustration of something which is raised a lot locally as a constituency MP.

Q57 Martin Horwood: Can I move on. If, as you seem to be saying, there is some doubt about whether or not businesses would contribute to SBRs for larger infrastructure projects, we have also heard from the evidence on Crossrail that actually the contribution from a business SBR might be a very small fraction of the total financing in any case. In Gloucestershire we are looking at possible light rail schemes linking Cheltenham and Gloucester and the rest of Gloucestershire; again the likely cost of that is going to run into hundreds of millions, the likely additional revenue from something like an SBR would probably only be, if we were very lucky, tens of millions. Is this really just a bit of window dressing or do you think it does have a role to play in infrastructure projects on a significant scale?

Ms Dee: We have not taken a view as to exactly what type of projects an SBR ought to be used for. We would not go as far as the British Chambers and say it should only be used for transport. Transport projects are a good example of the sorts of projects, like Crossrail, that have been talked about for uses in SBR. Whatever the project, businesses would need to be persuaded of the benefits and, therefore, asked to vote on them and, in our view, or the views that members have expressed to us, what they would do is look at the project, see whether or not it will benefit the overall area and offset that against how much they will pay and vote accordingly.

Q58 Martin Horwood: The CBI have no real view about whether or not this would be in general something that would end up being used probably for things like local CCTV schemes or something that might contribute significantly to major infrastructure. Those are quite different directions really, are they not?

Ms Dee: I think it depends on the way that the Government decides or otherwise to take the issue forward. We have BID schemes for those smaller scale type projects. What is the difference between a BID and a supplementary business rate? In our view they should be very similar but it is not clear, for example, whether larger scale infrastructure projects across local authority areas are the sorts of things that were envisaged. They pose challenges. We have not taken a definitive view about this.

Q59 Martin Horwood: Would you rather see BIDs continue as the vehicle for the smaller schemes and push SBR in that direction or have you really not taken a view yet?

Ms Dee: We have not taken a view yet. We think that BIDs offer a very good model to use for a supplementary business scheme. As I said, at the beginning we were not particularly enthused with the idea of a general power for local authorities to raise additional revenue because of corporate tax but, subject to a vote, businesses are given the opportunity to vote on a particular project, they will decide whether or not that project makes sense in that local area.

Dr Grail: Can I just put a quick health warning on the definition of “small” because we are talking about the scale of BIDs in terms of localities and, yes, in terms of localities as against local authority businesses they are small geographically but in scale and strategic importance, if I come back to the new West End Company example again, they are raising £2.1 million a year with the BID levy, they are raising an additional £1.6 million a year with voluntary property owner contributions, they are having that matched by £3 million a year from the Mayor through TfL and they are doing major long-term strategic projects. It is not small. Yes, what we are talking about is local but we are not necessarily talking about small. For the SBR, where projects sit, the devil is in the detail. There may well be examples—I hesitate to raise Crossrail again because everyone has said it—where there is an appropriateness for SBR at a certain level to do a major infrastructure scheme across a region and offset BID levies across that region but leave the BID delivering at local level. That does not mean that the projects are not of strategic importance, it means they are locally delivered.

Q60 Martin Horwood: You say do a major infrastructure project but actually the amount that is going to be raised from SBRs, from business, in a locality is not going to be sufficient, is it, to do a major infrastructure project? We have had an example from Leeds where Leeds super tram cost potentially up to a billion pounds but Leeds Chamber of Commerce estimates additional revenue from a rate of four pence in the pound will be about £27 million.

Dr Grail: I agree. I am not proposing the prospect of SBR doing infrastructure projects, what I am saying is if SBR is going to be implemented it has got to be at that end of the scale and leave BIDs doing the local delivery that is actually working.

John Cummings: Do you think that there is a case for exempting or discounting small businesses, particularly those businesses which already pay a higher proportion of turnover in tax, than larger operations? Do you think they should be exempted from the SBR?

Q61 Chair: Sorry, the BIDs already have but it is the question about the SBR. Does the CBI have a view?

Ms Dee: We accept that there may be a case for having a threshold level of rateable value. As a cautionary note what we would say is rateable value is not always the best indicator of a business’s ability
to pay and some types of business require properties with greater rateable value but it does not necessarily mean they are making higher profits.

Q62 John Cummings: Do you have any thoughts as to what the level should be of any discount or exemption?
Ms Dee: No, we have not proposed a business rate.

Q63 John Cummings: Do you have any thoughts whether it should be determined by rateable value?
Ms Dee: If the mechanism is a supplementary business rate then rateable value would have to be the mechanism by which you set the threshold.

Q64 Chair: That would not then deal with a business that had a low turnover but a high rateable value.
Ms Dee: No. That is why you need to be careful in setting thresholds in what the impact might be.

Q65 Chair: In the cases you have got where small businesses are exempt, what was the nature of the exemption?
Dr Grail: There is no prescription in the legislation, it is open completely to the BID team to decide and to set that out in the proposal. Out of the 45 BIDs that exist only five currently do not have any threshold in place. The norm is tending to be a minimum of £5,000 rateable value and the very basic practical reason for that is there is a collection cost associated with collecting the BID levy and roughly on average—there are variations—it is coming in at about £50 per unit, so there is no point in collecting below £5,000 rateable value because it would cost you more to collect than you would gain in income. Then beyond that it is about affordability in the business community and about numbers. In many cases, the numbers of very small businesses featuring on a ratings list is so high that you will not bring much income in but it will be very, very resource intensive, so many BIDs are putting in a rateable level higher and exemption at maybe £10,000 or £15,000 and creating a small business club for those businesses that feature in the lower levels and having representation on the board. I have to say, when you get below certainly £5,000, and in many places higher than that, what you are looking at on a ratings list is not businesses with a shop window, it is telecom masts, advertising hoardings, car parking spaces, so we are not talking about accountability of business per se here.

Q66 David Wright: What evidence have you got that could potentially be transferable in terms of the supplementary rating structure of businesses leaving locations because there has been a BID set up so they do not want to pay a supplement and they have decided to take their business elsewhere? The key concern here is if we have a supplementary structure that is set up people will relocate out of areas. What evidence have you got that is potentially transferable between the two models? Are people leaving BID areas because they have been set up?
Dr Grail: There is no hard evidence to date. Some research we have just been doing over the last few months with the property industry, with agents, looking at the impact of the BID levy or the existence of a BID on rent review negotiations, suggests that it is entirely the opposite, that businesses locating in a BID area are very happy with the level of services and the improvements that they are very much obtaining. There is still that price sensitivity there but as long as they believe they are getting value for money they are happy and, indeed, keen to locate in a BID area. There is certainly no evidence yet that people are leaving because they have got an additional charge.

Q67 David Wright: It is outputs, is it not?
Dr Grail: It is outputs and value. It is costs versus value. They have got to feel that that cost is affordable and they can see tangible benefits. As I said at the beginning, it is very price sensitive. We are at about one per cent. Four per cent, that I know has been mentioned in the Lyons report, would be entirely inappropriate in many BID areas, there is no way that the big retailers would accept four per cent.

Q68 David Wright: You are saying they would walk?
Dr Grail: Whether they would walk or not, I do not know, it becomes a balance of whether from four per cent they can then be convinced over a five year term that they have had more benefit than they have paid. That is what we are showing year on year.

Q69 Martin Horwood: If you had a very large business with a big rateable value and if the vote was on that basis that might well have tipped a controversial vote one way and then as businesses do relocate with four years still to pay that leaves all the other local businesses picking up the tab, how would you treat that business or do you think that is exceptional?
Dr Grail: There are some circumstances. We have had some where there are two or three businesses that are significantly larger than the rest and their levy has been capped at an appropriate level because they would not have paid at one per cent of their rateable value that was going to sit considerably higher than everyone else. That cannot be done if you have got new premises being built in a BID area. There are some examples of that happening but not many. It is about getting the levy rules right at the beginning to ensure that it is as equitable as it can be. Chop off right at the top and you chop off at the bottom and then you handle what is in the middle.

Q70 David Wright: I am saying perhaps if she could write to us with the levy rules.
Dr Grail: I am happy to do that.
Chair: Thank you very much indeed.
Witnesses: Ms Lynda McMullan, Director of Finance and Mr Nick Chard, Cabinet Member for Finance, Kent County Council; Mr Steve Brooks, Head of Finance and Resources, Dartford Borough Council; Mr Simon Wiles, Director of Resources and Deputy Chief Executive, City of York Council; and Mr Dermot Finch, Director, Centre for Cities, gave evidence.

Q71 Chair: If you could just introduce yourselves, starting with Mr Finch.
Mr Finch: Thank you. I am Dermot Finch and I am Director of the Centre for Cities.
Mr Chard: I am Nick Chard, I am the Cabinet Member for Finance at Kent County Council.
Ms McMullan: I am Lynda McMullan, I am the Director of Finance at Kent County Council.
Mr Brooks: I am Steve Brooks, I am Head of Finance and Resources at Dartford Borough Council.
Mr Wiles: I am Simon Wiles, I am the Director of Resources and Deputy Chief Exec of City of York Council.

Q72 Chair: Okay. Can I start off with a question to Kent and you can decide between the two of you which one of you answers. I note that in your memorandum you suggest that the debate should be much wider than the supplementary business rate. We think that the Lyons Review is probably that wider debate but in this Committee, because of trying to influence Government, we have firstly to do two very narrow debates, one on the supplementary business rate and the other on council tax benefit, but we intend at a later date to return to the much wider topic of local government finances. That is by way of explanation. Could I then ask whether you think that an SBR would provide genuinely additional resources and how would you guard against revenue raised in SBR being equalised away through calculations in the revenue support grant?
Mr Chard: Personally, I would be very concerned that the case and if local authorities were going to be very much an additional tax collector would there be resource equalisation. I will come back to Michael Lyons who said there should be improved mutual trust between businesses and local authorities. I cannot see SBRs doing that at all. What we have outlined, and I am happy to talk about that later on, is much more in keeping with what Sir Michael Lyons thought about in terms of mutual trust. I do not see SBRs particularly in a two-tier system working very well. I am sure that you have read our submission and there are enormous complications. It is quite different for a unitary authority; it is quite different again in a two-tier system such as Kent.

Q73 Chair: Do the rest of you wish to comment on that point about SBR and equalisation?
Mr Finch: Centre for Cities believes that SBR ought to be additional and the portion of revenue that is raised from SBR should not be equalised because the point of SBR is to provide a sharper, more positive incentive for local authorities to grow their own economies. If the revenue raised was equalised that incentive would be removed.

Q74 Mr Hands: This is slightly going back to previous evidence we had on BIDs, that one of the reasons BIDs seem to work so effectively is that businesses sit on the board and it is a private sector company and they have a very, very real say. What do you think of SBR where I think the proposals to have any sort of equivalent would be impractical but instead there would be a statutory consultation process? Do you think that is likely to be satisfactory, in your view?
Mr Chard: Personally, I think it would be satisfactory if it was part of the local area agreement funding. Rather than complicate it with extra consultation and all the rest of it, if it was part of the local area agreement I think that would be a very good mechanism.

Q75 Mr Hands: Any other views?
Mr Wiles: Going back to SBR, I suppose I think it would be better if it was differentiated from the BID because one of the problems we are having in York is we are trying to get a BID going but there is a huge difference between the attitude of businesses which have a strong local connection and those which have a national decision-making body and the large majority of the national ones do not give decision-making powers over BIDs or such things to local managers. Whilst we have had, as you see in our submission, a voluntary scheme going called York Business Pride, we also have some hopes of getting a BID going if we draw the boundaries carefully and we feel that a supplementary business rate would be a much better mechanism and would draw the whole of the business in the City together.

Q76 Mr Hands: What about two-tier areas? I know we touched on that very, very briefly but do you think an SBR could work in two-tier areas and how could agreement be secured?
Mr Brooks: Perhaps I can give a slightly different perspective on this. I am coming at it from a slightly different angle really, and it may be outside the remit of the Committee, but in Kent, and in Dartford in particular, the council collects a huge amount of business rates and the area receives very little of it back. For Kent as a whole there is a net deficit of £75 million. Dartford actually collected £63 million in business rates last year but the only amount that came back via the district, the county, the police and fire was £20 million. £40 million of it has gone elsewhere. On the basis of that, there is absolutely no way that my members will be able to go to business and say, “We would like you to pay some more”. One of the points of the Kent submission is the existing system is so fundamentally flawed and wrong that it would be impossible, certainly for people in Dartford, to ask businesses to pay any more when two-thirds at least is going to other parts of the country.

Q77 Mr Hands: You are clearly in favour of re-localisation of NNDR.
Mr Brooks: Absolutely; if not in all, in part.

Q78 Mr Hands: What about giving some kind of local control over a supplementary business rate? Is it completely impractical for there to be any sort of mechanism for people to vote on how the money is spent? There must be some way of giving local businesses a say in that expenditure.

Mr Brooks: Certainly you could give them a say but my point is that I cannot believe any business in Dartford would vote “yes” because they know under the current system the vast majority of the business rates they pay goes to other authorities. There is absolutely no way they would vote for that, even knowing that small amount of additional money would go specifically to fund services in their area.

Q79 Chair: Can we have the view of Kent on that?

Ms McMullan: Obviously we have got an annual duty to consult with business, which we do every year. The issue is if a supplementary business rate were to be levied it would be levied probably at the district level, they are the billing authorities, and we could end up with the strategic authority managing some of the issues around trying to deliver coherent economic development and regeneration across Kent with a fairly patchy picture of some districts wanting and agreeing with business to levy a supplementary business rate and other areas not. For us, the issue is not simply a funding issue, the issue is something that is a bit more coherent, it is how we tie some of the funding with the responsibilities to deliver economic development and regeneration across that sort of county area. Doing that negotiation and consultation at a district level would leave us in a situation that was very difficult to manage and I do not think it would deliver the outcomes that we would want to see within Kent.

Mr Finch: The Centre for Cities sees the SBR as a stepping stone over time to full re-localisation of the business rates, so criticisms of the existing systems, flawed though they may be, should not stand in the way of taking this first incremental step towards partial re-localisation, which is how we see the SBR.

Mr Hands’ question about the business vote and the discussion earlier, the arguments for and against a business vote seem to be very finely balanced, there does not seem to be a strong case, an overwhelming, compelling case, for a business vote but the concerns business have are understandable, and they were outlined earlier by the CBI and others. In essence, the business vote would help secure the confidence of business, that is what we see as the main benefit of it, and it would allow some certainty as well, but it would undermine the integrity of the tax system and, as Mr Betts was saying earlier, why should businesses be allowed to vote on marginal increases in the business rate and not council taxpayers? That is a very good question.

Q80 Chair: I have got a question specifically for the Centre for Cities. If you want to give authorities an incentive to attract business, do you want to then use SBR to invest in projects that actually build up non-domestic rateable value, such as a tramway for example, and do you expect the councils to then keep that uplift?

Mr Finch: We think that the revenues and any borrowing against revenues raised from SBR should be hypothecated towards transport infrastructure, as was mentioned and suggested earlier by Mr Horwood. We believe that first of all provides certainty to business, it reassures them that the revenues are not being frittered away on a range of different projects and, absolutely, investments in local transport infrastructure would help the local economy and would help generally uplift the quality and the productivity of the local economy and those revenues would then, of course, be recycled and retained later on. Hypothecating towards transport is the right way forward.

Q81 Chair: If it uplifted the rateable values locally it would simply increase the amount of non-domestic rate that was collected and went into the national pot, it would not go into the council.

Mr Finch: That gets me back to my earlier point which is that if you regard SBR as a stepping stone towards full re-localisation over time there are, as you rightly point out, some points like that that you could hold against SBR, but if you take the longer term view, if over five, ten years or whatever, the full business rate was returned to local authorities, that problem would not materialise.

Chair: Can we return to some questions about local flexibility.

Q82 John Cummings: Given that the purpose of the SBR is to enhance local flexibility, do you think it is necessary for central Government to set an upper limit on the levy rate?

Mr Finch: We think that the revenues and any hypothecated grant if it is going to be used just for roads because if that is the only lever to attract business then I am either wrong or--- There is a whole range of things that attract business to an area and increase regeneration, it is not just the state of the roads or the number of roads or the transport, it is a lot of other things from training to education, a whole panoply of things. To hypothecate it in a very narrow and focused way, I think, would be wrong, but that should be a local decision and it should not be for the Government to dictate to councils how they should spend. If that is what councils want to do, fine, but it should not be for the Government to dictate. As to the level of which should be the increase, well, that again should be a local issue, but I do not like the idea, so perhaps I am not the best person to ask.

John Cummings: Therefore, you are against such a cap. I think I understand what you said there, but, therefore, you do not agree that the cap should be placed upon the SBR?

Chair: Well, he does not think there should be an SBR.
Q83 John Cummings: But it is there and we are living with it.
Mr Wiles: As a supporter of it, perhaps the answer would be that there should be a cap on it because, otherwise, you could have a massive redistribution between council taxpayers and business rate payers and there is an opportunity for substitution of funding between the different forms, so we would think that it would be reasonable to put a cap on it and Lyons' proposal was four pence in the pound which is about ten per cent or just under of total business rates and that would in my view be perfectly reasonable.

Q84 John Cummings: Are you all of the same opinion, apart from Mr Chard?
Ms McMullan: I think that the view from Kent would be that it should be for local discretion, but we would agree with Mr Finch, that we do see this debate as being a stepping stone towards localisation of business rates, but, as Mr Chard was saying, we are not convinced that supplementary business rates separately in a two-tier area is the best way to go about building that confidence for us with our district colleagues and equally with business to actually achieve that longer term.

Q85 Mr Betts: Is not the logic of the stepping stone there that you may accept the four pence and then argue for it to be raised slightly and then move forward so that more and more of what business is actually paying is down to a supplementary business rate as a move towards localisation?
Mr Chard: I think the logical stepping stone is not for some areas to charge more, but for new business rates to not go into a centralised pool, but to go to local authorities, and Kent is—

Q86 Chair: What do you mean by “new business rates”?
Mr Finch: It is what Heseltine proposed.

Q87 Chair: I think Mr Chard can answer. Just to explain, what do you mean by the “new business rates”?
Mr Chard: Well, when new businesses are formed, and most of those that are in Kent have come under the Local Authority Business Growth Incentive (LABGI), they tend to be shopping centres, but where there has been regeneration, so there are new businesses and, therefore, new business rate income, they should be localised to the local authorities rather than going to the central pool.

Q88 Chair: But, if a new business moved into premises where there had been a previous business, would that count?
Mr Chard: No.

Q89 John Cummings: Do you believe then that local authorities should be given the power to negotiate a discount on a national business rate locally—
Mr Chard: Yes.

Q90 John Cummings:—as well as the ability to raise it sometimes?
Mr Chard: Yes.

Q91 John Cummings: To what extent is any additional revenue raised going to be offset by additional administrative costs?
Ms McMullan: Mr Brooks can answer more accurately as one of the billing authorities within Kent, but we do see as to the actual administration of collection, should supplementary business rates be the way forward, there are administration centres set up to collect existing business rates, and as to altering the rate, we do not see that as a huge amount of additional work for districts, but Mr Brooks might want to come in.

Mr Brooks: I do not see a huge amount. It would presumably be a fairly simple change to a computer system, so I do not think there is too much involved in it. I think some difficulties would ensue where people did not pay or they only paid some of it and how would you allocate within target. I think you would certainly have issues there, but, in theory, it should not be that difficult.

In the absence of the Chair, Mr Betts was called to the Chair

Q92 Mr Betts: Mr Finch?
Mr Finch: Just as to Mr Cummings' question about whether it should be capped, the question a few minutes ago: in principle, we do not think that capping is a good idea. In fact, what will probably happen or would happen with an SBR is that there would be an effective cap which would be arrived at through discussion between local businesses and local authorities. For example, a four pence SBR looks unrealistic, looks too high. Sir Michael Lyons has proposed an upper limit of four pence, but I have not heard any business which would accept that. Something nearer two pence, however, does look to be acceptable and it is quite interesting that, if you speak to local chambers of commerce in Greater Manchester or Newcastle, for example, they are much more inclined towards supporting an SBR because they can see the local infrastructure project, being Metrolink Phase 3 in Manchester, for example, that would then lead them to support an SBR. The two pence rate seems more acceptable than four pence and indeed, where a local business community can see a local transport infrastructure project that requires investment, the need for formalised consultation through a vote, for example, may not be needed because business buy-in could already be there.

Q93 Mr Betts: Could I just raise one concern or two possible concerns, the first being in terms of infrastructure. The idea with this supplementary business rate is that it will be time-limited. There will be a discussion with business, the CBI would want a ballot and it would then run for a certain period of time, but, if it was only limited to major infrastructure projects, and we had a discussion with
the London politicians earlier about linking it with Crossrail, then these projects are all much longer in terms of time and the borrowing for them is going to go on for a long period of time, so, if the rate to support them is for shorter periods of time, is there not a problem there?  

Mr Finch: Well, there could be if it is not made clear at the beginning and the revenue required to support such a large transport infrastructure project would need to be very long term. I think where businesses go in with their eyes open, knowing that a project requires long-term revenue financing, then they can make the decision. If a project is much longer than an SBR is time-limited for, then certainly there is a problem, but you would not get into that situation hopefully.

Q94 Mr Betts: Can I ask whether it poses any difficulties then for the two-tier, rather than the unitary, authorities, and particularly infrastructure projects, by their nature, may be done by the county, so is that going to lead to a tension if the SBR was simply limited to those and the second-tier authorities felt somewhat excluded?  

Ms McMullan: We think that there are problems administratively in agreeing it because, if, say, we were doing a major piece of regeneration, there may be a number of districts involved in that, for example, so we would have to co-ordinate different consultations with business with different districts. As to the money coming in, I think whether you are a unitary authority or two-tier, there are problems of the sustainability of that funding which is why we think that a more coherent stepping stone to localisation would be really revamping the LABGI scheme because we think that is something that is sustainable and would incentivise local government to do something more coherent. Then there are issues within the two-tier authorities, and we have this issue within ours, of growth areas where infrastructure is required. If the money is coming through the district and decisions are made at that level—and there are always going to be competing demands on the money coming through, but a lot of the infrastructure requirements in terms of expenditure are at county level—you are setting us up for a lot of, in the nicest possible way, very thrusting debate about what those priorities will be. To us, it does not seem to be the most sensible stepping stone to where we want to be in the longer term, which is about coherent regeneration and economic development and sustainable funding.  

Mr Chard: This whole scheme to me seems to be another way of taxing to create a revenue stream for infrastructure projects. What I think the purpose should be about is encouraging regeneration of areas and increasing business, and that is why I would much rather personally concentrate on the LABGI scheme, which I would say was a great idea mucked up by civil servants. I would love to see the LABGI scheme looked at afresh by people who really understand it and make it work because that is what regeneration is about. This SBR to me is about extra tax collection for infrastructure projects, and that is fine if that is what you want to do but I thought this was about regeneration. I do not think SBR is about regeneration, it is tax collection.  

Mr Brooks: We agree with that. It is just an unnecessary complication. As Nick has said, we need to sort out the LABGI scheme. LABGI is fine in theory but it is hopelessly flawed in practice. The Government are allocating £1 billion of money to local authorities over three years and it is an appalling mess.

Q95 Mr Olner: I was going to make the point I actually do not think SBR has a cat in hell’s chance of working in the Shires. Given that is a given, London has an agreement with its boroughs but it has got one commonality and that is Crossrail, there is no commonality in the Shires. There might be commonality in city districts. Do you see this as a tool that could cross counties or cross districts? You are talking about city regions now where there would be, if you want, the scope for doing a big infrastructure project like Crossrail. How do you see that fitting in with city regions?  

Mr Finch: I think that is right, this SBR proposal is definitely more suited to urban areas where, incidentally, we did research last year in Liverpool, Birmingham and Barnsley where businesses told us, and local authorities told us, that if an SBR were to go live it ought to be hypothecated towards transport infrastructure. They felt that was the priority and that would secure business buy-in. It is admittedly less useful for towns with a small business base, with rural areas, for example, but that is not a reason not to pursue SBR. SBR is differential in its impact. Crossrail being the biggest example, but Metrolink in Manchester, Birmingham New Street and other major transport infrastructure projects do require additional sources of revenue. Rural areas: different situation, different solution.  

Mr Wiles: I support that but generally we may be thinking too large on the infrastructure projects and the sort of things we might be thinking of in York are more like additional Park and Ride sites and we would like to get away from the focus on transport because one of the big things our businesses want is a new Tourist Information Centre. There is a whole variety of things which would boost local business, particularly in the city centre, which go far beyond transport.

Q96 Mr Olner: Yes, there are, but with that you have got the city regions, and I happen to think the city regions in the UK are never going to compete with London to get our fair share of commerce, trade and what have you.  

Mr Chard: Is this not a mechanism really for central Government to get local authorities to raise extra revenues to fund fairly large infrastructure projects which we would ordinarily expect government to fund. To me, that seems to be the whole point of this SBR. That is fine if there are other things—and I am pleased to hear that there would be other things rather than transport involved—but I think this is really just to try and milk the business community rather than to increase the regeneration.
Q97 Mr Betts: I was about to say the CBI seem to think that localising the business rate is a similar way of milking the business community only doing it rather better than SBR would.

Mr Chard: I certainly think the local business community have done better in terms of the increase in their business rates have been substantially less than the increase in council tax.

Mr Finch: Could I just pick up on that. The revenues proposed here for SBR, say a 2p increase, are relatively marginal and do not really equal the statement that Mr Chard just made. They would not be sufficient to support the costs of major infrastructure projects. They are a contribution to local transport infrastructure projects and, quite rightly too, local businesses who benefit from those transport infrastructure projects ought to pay their fair share towards them, but we are talking here about a marginal increase, part of a longer term return of revenue raising capacity back to local authorities, as I said a stepping stone over many years, and in that context I think SBR is a marginal contribution to transport infrastructure rather than milking the business community to pay for all of them.

Q98 Mr Betts: One issue that may cause us all a bit of concern is that looking at more local raising of revenue is fine for those areas where there is revenue to be raised but what about the areas which one might think might need more regeneration than others because they have got declining industrial bases, quite a lot of poverty in the areas, where perhaps transferring powers back to the local authorities to raise revenue is not necessarily the right solution if those areas have not got the revenue to be raised locally?

Mr Finch: I think we have to be very clear that SBR will have a differential impact. It is more suited to some areas than others. That is part and parcel of the whole devolution agenda. This is one tool, hopefully one of many. SBR will not solve the regeneration problems of every area. It is designed, hopefully, to address some specific issues around under-investment in transport and a wider issue about local authorities not having sufficient revenue raising capacity. There are plenty of other ways to address longer term decline, more deep-seated regeneration issues, in other areas. We have to be clear that the purpose of SBR is not to address every problem, it is just to address this one.

Mr Chard: I thought the LABGI scheme was, as the name says, Local Authority Business Growth Incentive, about incentivising and to encourage regeneration. I have made my point on SBR clear.

Mr Brooks: I would absolutely agree with that.

Mr Wiles: The issue you raise is a valid one, there would be a problem where there was genuine decline. I have had discussions with a couple of other places where they have got issues within their council areas and some have got positive business growth in a number of areas and in some parts of the city or the borough there is decline, and if you were able to have the opportunity to reduce business rates slightly in some areas and increase them in others you may be able to address that, particularly with the decline of city centres which some councils are talking about.

Mr Olner: They should give planning permission to build outside, should they not?

Mr Betts: Thank you all very much.
Written evidence

Memorandum by Harrogate Borough Council (SBR 1)

RATIONALE FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

There are opportunities where local authorities can undertake projects which will directly benefit the business community but which cannot be funded from available resources given the overall prioritisation of activities. Support for Harrogate District’s business and holiday tourism industry could be a case in point in the future.

ACCOUNTABILITY AND APPROVAL MECHANISMS

Any additional rate should be subject to majority support from the business community and be related to specific, timebound, identified and costed projects. The precise method by which support from the business community is assessed would need to be carefully considered. This council would want to be very clear that there was strong support from the business community as a whole.

We foresee considerable practical problems in a joint county/district supplement. (Who leads, whose projects take priority, who holds the purse strings and the veto?) We favour the accountability of separate funding streams for each tier’s projects. Some districts will have their own projects, and these should be funded by a specific district-level supplement—not spread across the county-wide one.

IMPLEMENTATION ISSUES

Software changes

The Government should specify and fund the changes for the national software firms to undertake. (Without a national project sponsor, these firms have individual councils over a barrel on their fees).

Rate in the £

Should be a multiple of 0.1p only, for ease and clarity and consistency with existing multipliers.

Recovery procedures

The supplement must be an integral part of the rating liability on the face of the NNDR bill, and subject to one and the same recovery process. Otherwise there will be twice as many bills, at least double the accounts in arrears, and twice the admin cost.

IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION ISSUES

Given that the supplement is intended for specific local projects, the proceeds should all be retained locally (as the Lyons report recommends) and with no attempt at equalisation for areas of different taxbases.

APPROPRIATE SCALE OF THE SUPPLEMENT

We suggest a maximum 2p in the £ split equally between the two tiers of authority where this is relevant.

THRESHOLD FOR PAYMENT BY SMALL BUSINESSES

The supplement should not bear disproportionately on small businesses, and so a simple flat-rate supplement on the multiplier is not appropriate for them.

Preferably the supplement should be reduced pro-rata to any Small Business Rate Relief for that property. The normal SBRR rules should apply (eg those which exclude multiple properties). Alternatively properties with SBRR should be exempt from the supplement altogether.

The need for simplicity rules out any other discounts or exemptions.
OTHER COMMENTS

We support this extension of local freedom in principle, but would not expect it to be used as a matter of course and only in respect of special projects.

Memorandum by the Institute of Value Management (SBR 2)

This is the response of the Institute of Value Management to the call for evidence. This response relates solely to the following item:

— “the rationale for introduction of a supplementary business rate”.

The evidence we give is as follows:

INSTITUTE OF VALUE MANAGEMENT

The Institute of Value Management was first established in October 1966 with the assistance of the Ministry of Technology in order to promote and disseminate best value programme practice for the wider benefit of the UK economy. We are also the UK’s representative and qualifying body in respect of value management.

We are currently representing the UK with the revision of the BS EN 12973: 2000 standard. We represented the UK in relation to the European Commission’s SPRINT programme set up by the Council of Ministers in 1989 to improve EU productivity. The SPRINT programme included several major research projects, a series of publications, six international conferences, the initiation of EN standards and the European System for Training and Certification in Value Management. Within the UK the Institute maintains links with HM Treasury and other government departments, also a range of universities and research bodies and we draw some of our members from local government.

SECURING “BEST VALUE” IN LOCAL GOVERNMENT

The position of the Institute is best explained by reference to the “best value” policy. This is addressed first. We see little point in changing the methods of local government finance while the capacity to raise performance and value for money remains as relatively poor as it is. This lack of capacity is well illustrated by the fate of the “best value” policy.

There was little difference in principle between the “best value” policy and value management—the 4Cs, stakeholder challenge sessions, steering groups, etc, all are well known in value management. The problems experienced with “best value” generally boil down to poor execution due to a lack of expertise and experience on the part of central and local government alike along with those responsible for inspection. We had reports from our members saying that, for example:

— Reviews took far too long—often a year when three to four months should suffice (from planning to reporting).
— Reviews were poorly structured—with a lack of key milestones, therefore encouraging “drift”.
— Inadequate tools to analyse functions and cost—this also impacted on topic selection and “scoping”.
— Goals insufficiently ambitious to fully stimulate challenge.
— Lack of suitable training—teams went in at the deep end.
— Lack of top management support—matters were allowed to drift without check.

The chemistry of project management, skills, methods, etc needed in the context of reviewing products and services to improve value is provided for in the part of value management known as value analysis. Value analysis provides the methodology for reviewing existing services or products. Value management relates to the entire programme and related methods. This is supported by BS EN 12972: 2000 that includes the Value Management Framework. The Framework includes all that is found in the original DETR Best Value Framework plus elements relating to methods, tools and training to ensure programme success. It should be stressed that the Institute was fully supportive of the “best value” policy—indeed the term “best value” has been used in value management circles for decades.

We also fully supported the principle of “best value” inspection. Unfortunately we could see that inspection under “best value” served to reinforce the low expectations and poor practices reported above. For example:

— Inspections focused too much on individual reviews and too little on overall programmes and their effectiveness in keeping down costs.
— We encountered instances where topics that need reviewing were not reviewed under “best value” due to fear of heavy handed inspection.
— Inspectors made heavy weather of inspection due to lack of previous value programme experience and related training—wholly avoidable given the availability of training.

We would like to close this section with an extract from the proceedings of the First European Value Conference held in 1966. At the 1966 conference a Mr R I Parsons, Head of Systems and Services for Philips Industries said this:

“I would stress that the effective results through making Value Analysis a part of everyday thinking has been dependent on:

1. Clear and unequivocal top management support—demonstrated through direction and review of team activities.
2. Team work—in which the necessary energy and enthusiasm are automatically generated.
3. Intensity—where the team have a task, a time deadline and set themselves a cost saving target.
4. Training where all team members have participated in a training seminar”.

Had advice of this sort been heeded “best value” might not have failed. Instead of a benefit to cost ratio in the order of ten to one the policy appears to have cost more in overall terms than it delivered. The Institute would emphasise that a ten to one benefit to cost ratio is a long established benchmark for an effective value programme—a figure that is often exceeded in respect of programmes relating to existing products and services.

CONCLUSION

The Institute sees little point in making changes to arrangements for funding local government while there is reason to doubt the effective use of funds secured from current arrangements. The Institute has no views as to what arrangements should be made for funding if and when problems associated with value for money and performance are resolved, or to what purposes the funds are put. We do believe, however, that getting value for money right should have priority over the inevitable upheaval and distraction that changing funding methods would incur. In short we submit that:

— The value for money issue should be resolved before additional or changed methods of funding are introduced.

RECOMMENDATIONS

In order to improve the capacity of local government and other public services we believe that value management should be given the same level of support and encouragement by the Government as has been given to BS 5750/ISO 9000, the EFQM Excellence Model and Investors in People. These are worthy topics but are not as powerful in the delivery of performance as value analysis and value management. Nor did they underpin the quality revolution of post-war Japan as did value analysis—along with the statistical quality control work of W Edwards Deming. Indeed, there is a case for giving the work of Deming similar such support. It is also the case that value analysis and value engineering methods and tools play a key role in modern lean practices—as do statistical quality methods. These are also embodied in six sigma.

In the view of the Institute it seems perverse that successive governments, while lamenting the performance and value for money delivered by public services despite increased funding, have failed to promote the very topics that could ensure better service delivery. The costs of supporting “delivery” topics such as value management, statistical process control and six sigma are negligible and would be vastly offset by the benefits so derived. The cost of the investment required cannot an issue.

The Institute believes that all types of value for money inspection should assume the rigorous use of one or more of the “delivery” topics in order to raise expectations to what is possible and not limit expectations to what is currently done. This was a major weakness under “best value”.

Memorandum by Cheshire County Council (SBR 3)

The House of Commons Communities and Local Government Committee has announced an inquiry in which it will examine the case for Government to introduce a power for local authorities to levy a supplement on the business rate within their area, including addressing the following issues:
THE RATIONALE FOR INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

The intention of allowing authorities to levy a supplementary business rate is to increase local flexibility and support the continued investment in infrastructure which both businesses and local authorities have called for.

Business Rates contributed about £17.5 billion—about 20% of local government spending in 2006–07. The most pressing need in the Lyons Report is seen as developing better relationships between business and local government with greater engagement on economic development issues.

In two tier authority areas like Cheshire, business rates are collected by the districts, passed over to central government and redistributed on a per capita basis. For Cheshire, in 2006–07 £254m was raised locally in Business Rates and handed over to the central pool, with £112m being allocated back to the districts and the county (an additional £54m being allocated to Cheshire Police Authority and Cheshire Fire). For the County Council this income represented 22% of total spending of over £336m, or £73m. The proposal in the Lyons report would be for a supplement on the current rate which would be retained locally.

ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS AND THE WIDER COMMUNITY

Our concern is that any mechanism for a supplementary business rate must be transparent, simple—easy to administer. It could merely represent a “tinkering around the edges” of local government finance in terms of orders of magnitude. The Lyons Inquiry suggests that for Cheshire a £0.01 supplement on business rates would raise over £5m but that this would increase the cost of property occupation in the short term and may result in potential reductions in the capital value of property. In the longer term, business rates are likely to be passed onto owners in lower rents and could lead to a reduction in rateable values. This may mean the national tax rate will have to increase to continue to raise the same amount of national revenue. We would want to see full exemplifications of the potential impact of this in order to be sure that the introduction of a supplementary business rate would be beneficial overall and that any additional income would be material. However the opportunity to expand the tax base and open dialogue with business is welcome.

CONSIDERATION OF IMPLEMENTATION ISSUES, INCLUDING THE IMPACT ON LOCAL AUTHORITY TAX BILLS AND DECISION-MAKING IN TWO-TIER LOCAL AUTHORITY AREAS

The proposal is for upper tier authorities to set the rate for the supplementary levy, but in 2 tier areas, the proposals should be the subject of discussion and agreement between county and district councils with joint plans for the use of revenues raised to meet the overall needs of the area. This already happens with Business Improvement Districts where supplements as high as 4p have been levied in some cases. However there will need to be some flexibility with setting the level so as to allow new arrangements to develop. In a two tier area like Cheshire, would one rate need to be set for the whole of the County—the impact of this on the different districts would need to be carefully assessed to ensure none of them would be adversely affected. There would need to be negotiation and cooperation between the county and the district councils in how the retained business rates would be used.

THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

To maintain current levels of equity under a localised business rates system, around 70 authorities would need to pay some of their local tax revenues to central government to support other authorities. This would not provide any incentives for growth or help build relationships between businesses and local authorities, as the taxes raised locally would be reallocated elsewhere in the country.

THE APPROPRIATE SCALE OF THE SUPPLEMENT

Sir Michael Lyons suggests authorities should have some flexibility over which sizes of business would pay the levy. We would want to retain this flexibility.

THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

A discount or exemption for smaller businesses is unlikely to substantially reduce the overall yield for the supplement; however larger businesses may feel it is unfair that they are effectively subsidising smaller businesses. This should be managed at a local level taking into account local economic conditions. There would need to be some form of flexibility within the system to allow smaller businesses to be exempt from the additional rate if necessary. LABGI, BIDS etc are all aimed at promoting business growth and levying a supplementary rate must be carefully assessed to ensure there is not a negative impact.

The Chancellor does agree to bring forward proposals to reform LABGI before the summer to improve incentives for increased local economic prosperity.
General view is that Treasury is more sympathetic to reforming and expanding the Local Authority Business Growth Initiative than moving to a local business rate supplement. It likes the idea of councils receiving extra income in return for stimulating business growth, thus providing incentive for development.

Memorandum by Head of Corporate Finance, Hambleton District Council (SBR 4)

1. INTRODUCTION

1.1 The district of Hambleton is situated in North Yorkshire. It is one of the largest rural districts in England covering an area of 131,158 hectares, and is 40 miles long (north to south) and in parts 30 miles wide (west to east). It is sparsely populated with half of the estimated 86,000 residents living in the market towns of Northallerton, Thirsk, Stokesley, Bedale and Easingwold which provide a focus for their surrounding villages.

1.2 Unemployment in the area is low (circa 1%+) and the economy is dominated by small business. Significant employers in the area include the County and District Councils. Approximately 75% of businesses employ less than five people. Tourism is significant (but seasonal) and generates income in excess of £50 million for the local economy.

1.3 Hambleton District Council is one of 238 Shire Districts in England and as such is responsible for the administration of the business rate within its area.

2. RATIONALE FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

2.1 Local government faces many pressures in relation to the services that it provides. These pressures come not only from Government and local Members, but also from residents and businesses. Expectations about both the quantity and the quality of local government services are increasing rapidly.

2.2 However, what is not increasing as quickly is the level of funding available. The Council’s funding of the 2007/08 revenue budget is shown in Table 1:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Support Grant</td>
<td>793,646</td>
<td>7.96</td>
</tr>
<tr>
<td>Business Rates</td>
<td>4,729,135</td>
<td>47.42</td>
</tr>
<tr>
<td></td>
<td>5,522,781</td>
<td>55.38</td>
</tr>
<tr>
<td>Hambleton District Council:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council Tax at £80.38</td>
<td>2,837,098</td>
<td>28.44</td>
</tr>
<tr>
<td>Contributions from Reserves</td>
<td>1,613,456</td>
<td>16.18</td>
</tr>
<tr>
<td></td>
<td>4,450,554</td>
<td>44.62</td>
</tr>
<tr>
<td></td>
<td>9,973,335</td>
<td></td>
</tr>
</tbody>
</table>

2.3 The ability of the Council to raise additional funds for service improvements is restricted to Council Tax and reserves. An increase of £1 in Council Tax will only raise £35,300. The current Government expectation is that Council Tax should not rise by more than 5%. The Council has an excellent record for setting a low Council Tax, which means that a 5% rise would only produce £142,000. With a 2007–08 salaries budget of £10.8 million this would not be enough to cover a 2% pay award. In terms of reserves, the current commitment cannot be maintained forever.

2.4 The principle of raising additional revenue through a supplementary business rate is therefore supported.

3. ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

3.1 If a Supplementary Business Rate is to work effectively there must be trust between the Council and businesses. This can only happen if there is a dialogue with the business community.

3.2 The Lyons report suggests two possible ways forward. The first is a voting mechanism. Whilst this is possible it would raise a number of issues:

— Would each business receive one vote or would they receive more votes according to a band of size?
— What would the bands be?
— How many bands would there be?
— Would voting be undertaking every year or only once in the life of a Council (four years)?
— How would a voting system for businesses tie in with the views of the electorate?
— Would the Council be bound by the decision of the vote?

3.3 The second proposal involves consultation. As there is already a duty placed upon Council’s to consult with the business community on its Council Tax and spending plans, it would seem sensible to extend this to include consultation on spending proposals for a Supplementary Business Rate. Such consultation should be part of an ongoing dialogue with the business community.

3.4 Consultation with the business community as the mechanism for deciding upon spending plans is supported.

4. Implementation Issues, including the Impact on Local Authorities Tax Bill and Decision Making in Two-tier Local Authority Areas

4.1 Administration of the system should be kept to a minimum.

4.2 There should be no impact upon the Council’s Council Tax Bill as all funding of expenditure will come from the Supplementary Business Rate. However, in order to be transparent, the amount of the supplement must be clearly shown on the Council’s Business Rate Bill. This will require changes to computer software with the associated costs.

4.3 Regulations will have to be made allowing income from the Supplementary Business Rate to be withheld from payments into the National Pool and the necessary accounting arrangements will have to be in place.

4.4 Consideration will also have to be given to apportionment of income from businesses in the event of non-payment or arrears of payment. Will income be apportioned first to the national rate element of the bill or the supplementary rate element?

4.5 The Lyons report recommends that the levying of a Supplementary Business Rate should be restricted to upper tier authorities. This is not supported. In a large County area such as North Yorkshire it will not be possible to ensure that income from the rate is spent equally or proportionately across the County area. It could lead to the frustration of business seeing their contributions being spent in other areas and not locally. In addition, it would mean that their voice within any consultation process would be diminished by involvement of businesses from such a large area.

4.6 It is essential that the scheme is kept as local as possible. Allowing District Councils the ability to set a Supplementary Business Rate is the only way of ensuring that this happens. In two tier authority areas, therefore, it would be necessary to find a way of allowing each tier to levy a rate, perhaps on a 50:50 basis.

5. The Impact of a Supplementary Business Rate on Equalisation

5.1 The return of the national business rate to local authorities will have an impact upon equalisation of resources. However, this is not the proposal in question. The proposal is for local authorities to have powers to levy a Supplementary Business Rate with the sole purpose of being able to raise additional money to be spent locally.

5.2 If the power to levy a Supplementary Business Rate comes with the added complication of the income being included in the calculation supporting the principle of equalisation, it would defeat the aim of transparency of purpose. Authorities would find that income raised by local businesses is passported to and spent by other authorities.

5.3 Income raised by a Supplementary Business Rate should not be taken into account when considering equalisation. Income from this source should be raised locally and spent locally if the system is to have both accountability and transparency.

6. The Appropriate Scale of Supplement

6.1 The Lyons report uses examples of the national yield of a 1p and 4p supplement. In the context of Hambleton these figures would raise the amounts shown in Table 2:

<table>
<thead>
<tr>
<th>Amount of Supplement</th>
<th>Yield</th>
<th>Proportion of 2007-08 Revenue Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>1p supplement</td>
<td>488,000</td>
<td>4.9</td>
</tr>
<tr>
<td>4p supplement</td>
<td>1,952,000</td>
<td>19.6</td>
</tr>
</tbody>
</table>
6.2 Table 2 shows that a 1p Business Rate Supplement would give the Council an additional 4.9% increase on its revenue resources. A 4p increase would give the Council an additional 19.6% increase on its revenue resources. The increase in Band D Council Tax necessary to raise these amounts is shown in Table 3:

<table>
<thead>
<tr>
<th>Amount of Supplement</th>
<th>Yield</th>
<th>Increase in Band D Council tax</th>
<th>Percentage increase in Council Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1p supplement</td>
<td>488,000</td>
<td>13.82</td>
<td>17.2</td>
</tr>
<tr>
<td>4p supplement</td>
<td>1,952,000</td>
<td>55.29</td>
<td>68.8</td>
</tr>
</tbody>
</table>

6.3 Clearly the increases in Council Tax necessary to raise the equivalent Supplementary Business Rate income would be unacceptable to both the local taxpayer and the Government.

6.4 In terms of the increase in business rates a 1p or 4p rise would represent a 21/2% or 9% increase over the current national rate multiplier. A Supplementary Business Rate of anything up to 4p is supported.

6.5 However, it is recognised that a 4p raise for businesses is substantial and therefore the proposal to put a cap on the supplement is also supported.

7. THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

7.1 The impact upon small business of a Supplementary Business Rate may be quite substantial. Many of these small businesses may be new businesses and it would not be helpful to put their viability in jeopardy by the burden of extra costs.

7.2 The concept of a Rateable Value threshold below which small business would not be required to pay the Supplementary Business Rate is supported. A threshold of below RV £15,000 would also be supported.

7.3 In the case of Hambleton such a threshold would reduce the number of businesses by 80% as shown in Table 4 below:

<table>
<thead>
<tr>
<th>Rateable Value</th>
<th>No of Assessments</th>
<th>Gross RV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under £15,000</td>
<td>2,784</td>
<td>14,004,767</td>
</tr>
<tr>
<td>Over £15,000</td>
<td>697</td>
<td>40,269,422</td>
</tr>
<tr>
<td>Totals</td>
<td>3,481</td>
<td>54,274,189</td>
</tr>
</tbody>
</table>

7.4 This significant reduction in numbers would also assist with the administration of the scheme.

7.5 However, Table 4 also shows that the impact on the yield from the Supplementary Business Rate would only be reduced by nearly 26% which is acceptable.

Mr Dave Simpson, Head of Corporate Finance.

Memorandum by the Association of Charity Shops (SBR 5)

INTRODUCTION

1. The Association of Charity Shops welcomes this opportunity to contribute to the debate about non-domestic rating. The Association of Charity Shops is a member organisation which represents, supports and acts for charities which operate charity shops. At March 2007, the Association had around 270 member charities, ranging from the very largest national charities to local hospice charities. Together, they operate 6,800 charity shops across the UK. In 2006, charity shops raised £110 million for vital charitable causes. Over 91% of charity shops’ income derives from the sale of donated, second hand goods.

2. Charity shops receive mandatory 80% relief from National Non-Domestic Rates (NNDR), because they serve a “charitable purpose”. This is funded centrally. In England, charity shops serve a “charitable purpose” by virtue of Section 64(10) of the Local Government Finance Act 1988. Section 64(10) reads: “A hereditament shall be treated as wholly or mainly used for charitable purposes at any time if at the time it is wholly or mainly used for the sale of goods donated to a charity and the proceeds of sale of the goods (after any deduction of expenses) are applied for the purposes of a charity”.

3. Additional relief is payable at the discretion of individual local authorities.
CONSIDERATION

4. Taxing charities is an inappropriate way of raising local authority revenue, in view of the role charities play in providing services and support to their beneficiaries, both locally and nationally. Some years ago, we estimated that NNDR liabilities represented over 25% of charity shops’ profits. This proportion, if anything, will have increased over recent years.

5. By their nature, charity shops cannot readily make efficiency gains or other cost reductions. Any increase in core costs such as NNDR will, therefore, have to be met directly from funds earmarked for charitable purposes.

6. For these reasons, we would oppose any proposal for a supplementary business rate, if this rate were to apply to charity shops. We do, however, recognise that other considerations might make a case for the introduction of a supplementary rate appear compelling.

7. The Association welcomed Phil Woolas’ initial response to the Lyons report on local government on 21 March, in which he said, “we have no plans to change the existing [rates] relief given to charities”.

8. In the light of this, should a supplementary business rate be allowed, we believe that this rate should include the same reliefs for charity shops as NNDR (both mandatory and discretionary), and we would urge the Committee to support this.

Annex 1

CANCER RESEARCH UK

In 2006–07, Cancer Research UK’s shops raised over £17 million to help support our vital research into cancer, generating a steady income and also a focal point for the charity on around 600 high streets across the UK. As one of one of the top two largest charity retailers in the UK, we have a loyal supporter base with over 16,000 dedicated volunteers working in shops in their local communities. As such, our retail network is a key part of our presence in the community with a crucial role in both raising funds and awareness to support our vision.

We have noted the recommendations of the Lyons report into local government and the recent proposal that local authorities should be allowed to levy a supplement to the national business rate.

As the largest fundraising charity in the UK, Cancer Research UK believes that any increase in business rate liability on charity retailers will have significant negative impact on our ability to raise funds and awareness for our work.

Based on our initial estimation, the introduction of the new supplement would cost the charity in excess of £500,000 each year.

In addition to the financial costs incurred, this increase would compromise the unique scale of customer and supporter touch-points our shop network provides. This affects our mobilisation of, and engagement with, the general public on a personal level in key health campaigns and cancer prevention issues.

We strongly urge, if a supplementary rate is allowed, that the 80% non-domestic mandatory relief currently available to charity retailers should be extended to apply to the new rate.

Charity shops are the lifeblood of the UK’s voluntary sector. Over 7,000 charity retailers are currently operating in the UK with more than 120,000 volunteers contributing to community life and the environment—working in partnership with local councils, businesses, schools, suppliers and other charitable organisations on waste disposal and recycling initiatives, or promoting education and training opportunities through in-store volunteering.

In this way, they rely on the generosity of these communities, but also contribute to helping to build stronger and sustainable communities.

As a consequence of the recent cut in standard rate of income tax, the amount charities can reclaim in gift aid will result in a total loss of over £70m to the sector in 2007–08. We are concerned that these gift aid losses combined with any new increase in business rate liability for the sector will result in severe restrictions to the role that we can play in enhancing community life. This raises key questions for us about level of commitment shown by the government to the sector and its support for encouraging participation in voluntary activity and charitable giving.
Memorandum by the Federation of Small Businesses (FSB) (SBR 6)

1. The Federation of Small Businesses (FSB) is the UKs leading non-party political lobbying group for UK small businesses, existing to promote and protect the interests of all who own and manage their own businesses. Founded in 1974, it now has over 205,000 members across all industries, trades and services. FSB members together employ 2.5 million people and turn over more than £10 billion a year.

2. The FSB welcomes the opportunity to respond to the call for evidence from the House of Commons Select Committee for Community and Local Government on proposals for a supplementary business rate.

BACKGROUND

3. In his final report, Sir Michael Lyons put forward the idea of a power for local authorities to levy a supplement to the national business rate within their area. He proposed that the additional ring-fenced revenue should be spent only on infra-structure projects approved by the local business community and therefore be of benefit to them. Sir Michael listed a number of key issues for consideration, including the scale of the supplement, accountability, and the sizes of business that should pay the levy with the possibility of threshold below which small businesses would not pay the levy.

THE FSB VIEWPOINT

4. The FSB is firmly opposed to the proposal for a supplementary business rate and has concerns that it could be used as an easy way to raise extra revenue for local authorities. In response to the Lyons Inquiry, the FSB voiced strong opposition to any proposals to return rate-setting powers to local authorities. The FSB takes the view that the system of locally set rates in place before the introduction of the Uniform Business Rate in 1990, was bad for small businesses, as the system led to unpredictable, inconsistent and often higher business rates. The Lyons proposal to introduce supplementary business rates could arguably be perceived as relocalisation by the “back door”.

5. Supplementary business rates would furthermore be another tax on hard pressed businesses, already suffering from some of the highest property taxes in the world. Small businesses pay, as a proportion of turnover, three times more in business rates than larger businesses. Moreover, many small businesses are now facing a 15% rise in corporation tax so a supplementary business rate would hit them even harder.

6. FSB CONCERNS ON THE SUPPLEMENTARY BUSINESS RATE PROPOSAL.

6.1 It is unclear as to how infrastructure projects will be selected and if the process will include significant input from the local business community.

6.2 There is no indication of how, or whether, the local business community will be consulted.

6.3 Sir Michael recommended that any supplementary rate should be run by unitary or first tier shire councils, or the GLA. The London boroughs and district councils could face considerable administration costs because they would be responsible for the collection and accounting of supplementary rate revenues before passing them onto the GLA or county. As can be seen with BIDs, some local authorities administration charges are high and often represent a considerable portion of the total BID revenue.

6.4 In the case of London, it might prove difficult for the 33 boroughs, the GLA and the business community to agree a single supplementary rate across the capital.

6.5 Within the shire counties, businesses on the opposite side of a county project could object to paying for something from which they may not receive any direct benefit.

6.6 It may prove easier to implement a supplementary rate in an area by consultation rather than the BID process that requires an independent ballot process. However, due to their very local level, BIDs have proved to be accountable and transparent, therefore businesses may be keen to protect the concept of BIDs above a supplementary rate.

6.7 The basic principle of applying a supplementary rate and a BID levy in the same area may prove too heavy a burden for local small businesses to bear.

6.8 As shown in the Lyons report, depending upon size and rateable wealth, the revenue raised by a 1p supplementary rate varies enormously across the 150 upper tier authorities, including the London boroughs and the City of London. Only three would have an annual yield exceeding £10 million. A further 16 would have a yield exceeding £5 million. To achieve the aim of financing infrastructure projects and in terms of fairness either there has to be some form of equalisation as currently occurs with business rates revenues, or poorer authorities would have to charge a high supplementary rate putting its business community at a disadvantage compared with wealthier neighbours.
INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE—REQUIRED SAFEGUARDS

7. The FSB has made its position clear in its opposition to a supplementary business rate. However, should a Supplementary Business Rate be introduced, the FSB would wish to be involved and represented at all levels of consultation, and would seek the following safeguards to be embraced in any legislation and regulations.

7.1 Where a supplementary business rate is proposed, there must be meaningful consultation with all businesses, both large and small. The rate revenue should be ring-fenced for specific infrastructure projects. Designated projects should have the backing and support of the business community, which should be kept involved at all stages in the life of the project.

7.2 The operation of a supplementary rate must be simple, transparent and accountable to all, not only the local authority and the business community.

7.3 There should be an upper limit in the total level of supplementary rate that a local authority can levy, be it the rate finances one or several projects. It is particularly important to protect businesses in authorities with a low total rateable value that may impose a compensatory high supplementary rate. Sir Michael recommended an upper limit of 4p in the pound, which equates to about a 9% increase in current business rates bills.

7.4 There should be a strong business case backed by the local business community to support any increase in an existing supplementary rate.

7.5 A supplementary rate should operate for a fixed term, usually the construction life of the infrastructure project, similar to the current situation with BIDs. It should not be open-ended to become just another revenue raising source.

7.6 It is crucial that the supplementary business rate is restricted by a threshold to protect businesses in local authorities with low total rateable value that may suffer from a compensatory high supplementary rate.

7.7 There should be a lower rateable value threshold below which ratepayers would not pay the supplement.

7.8 The supplementary business rate should not apply to small businesses that are eligible for business rate relief. The exemption should be automatic and should not require any application process.

CONCLUSION

8. The FSB believes that the introduction of a Supplementary Business Rate would have a negative impact on all businesses, but especially on small businesses, with no discernible benefits. Additionally, operational problems and administrative costs may make such a scheme unworkable.

Memorandum by the Rating Surveyors’ Association (SRB 7)

I am pleased to respond on behalf of the Rating Surveyors’ Association to the call for evidence in respect of this matter. The Rating Surveyors’ Association is a professional organisation representing the interests of experienced Chartered Surveyors who specialise in the field of business rates. The Association was founded in 1909 and has over 400 members drawn from private practice, corporate bodies, the Valuation Office Agency and local authorities.

Our primary function is to work with the various bodies responsible for the rating system—the Department for Communities and Local Government, the Valuation Office Agency, local authorities and the Valuation Tribunal Service—to improve the business rates system. We actively pursue this objective, keep our members up to date on relevant issues, encourage their participation on all aspects of our work, and organise social events to bond people of like minds.

We consider that the RSA is especially qualified to comment on the proposed supplementary business rate given our specialist knowledge of the non-domestic rating system, of the impact of business rates on the property market and our involvement with business organisations upon whom the additional rate would be levied.

The RSA has been a fervent supporter of the Uniform Business Rate since rates were “nationalised” in 1990. The UBR ensured a “level playing field” so that the cost of rates to business was dependent upon a property’s value and was not distorted by political decisions taken by local authorities. Of increasing importance over the last few years, given the requirement for businesses to budget accurately for future outgoings, has been the linkage of the UBR to the Retail Prices Index (albeit that it is rebased at each five-yearly revaluation to ensure that the total take from non-domestic rates increases in line with inflation). This has brought certainty, stability and predictability to this important outgoing.

Sir Michael Lyons recognised these benefits in his recently published report into local government and his recommendation 8.1 was “The RPI cap on the national level of business rates should be retained”. We were therefore surprised that Sir Michael called for the introduction of a supplementary local rate as this
will remove businesses ability to predict and budget for their future outgoings and add significantly to the administrative burden in managing their rates outgoings. This is especially pertinent for the large number of multi-site operators with rateable properties located throughout the country.

The Committee will be aware that as recently as December 2001, following consultation, this Government rejected its own plans for a supplementary local rate. In a White Paper (Strong local leadership—quality public services Department for Transport, Local Government and the Regions) Government abandoned its plans for a local rate supplement because “it is clear from many of the local authority responses that the supplementary rate was seen primarily as a means of raising revenue,” and “business organisations pointed out that the only way in which local businesses could be sure a supplementary rate would not be imposed on them was to vote against.”

Sir Michael recommended that businesses should not be invited to vote in respect of the supplementary local rate he favours and instead recommends designing the proposal “in a way that can gain credibility with business”. It seems to us that it is the power of a vote and the fact that Business Improvement Districts levies are applied to very targeted localities which has given BIDS their credibility. Lyons’ call for local businesses to be given a “strong voice in the final decision on whether there should be a supplement, and the purpose to which the proceeds are put” is a poor substitute for a vote. He suggests that only higher tier authorities should be able to levy a supplementary rate, but the supplement would therefore be a crude tool and unlikely to receive support other than from those businesses that would benefit directly from use of the additional revenue collected.

We have no doubt that if supplementary local rates are introduced and levied, this would lead to the abandonment of BIDS as businesses would not countenance paying for both. This would be regrettable as considerable endeavours have been made in establishing the regulatory framework for BIDS and establishing what is now a critical mass of successful BIDS, albeit there is room for many more. Because of the dual key voting mechanism and the early signs of success in delivery, BIDS are gaining the support of business which would be lost should supplementary local rates be introduced.

Memorandum by British BIDs (SBR 8)

1. BRITISH BIDS

1.1 British BIDs is the nationwide membership organisation for both formal and developing BIDs, and stakeholders with an interest in BIDs, across Britain. It is run by Partnership Solutions in collaboration with the British Urban Regeneration Association. The organisation works closely with formal and developing BIDs and carries out regular research and benchmarking surveys of all formal operating BIDs around the country (currently 45 BIDs exist) and as such represents those in the policy and dissemination work undertaken.

2. THE BID LANDSCAPE IN THE UK

2.1 Since 2005, when the first BID ballot was held and won, the number of BIDs in England has been steadily rising. In 2006, we saw the first successful ballot in Wales. Since then the Scottish Executive has passed BIDlegislation, which came into force in April 2007 and has commenced a pilot programme. Interest in the concept is also building in Northern Ireland.

2.2 So far 58 BID ballots have taken place in Britain, of which 46 have been successful. We now have 45 formal BIDs in Britain, with one having already been through a renewal ballot.

2.3 These can be broken down into “types” of BID as follows: Town Centre BIDs—28; Leisure BIDs—2; Commercial BIDs—1; Industrial BIDs—11; Mixed use BIDs—2; and Citywide—1.

3. THE POTENTIAL IMPACT OF THE SBR ON BIDS

3.1 The legislative framework from BIDs grew out of the original Green Paper that proposed the idea of a Supplementary Business Rate. At that time, the idea of BIDs was favoured over the SBR approach due to it’s clear localism and accountability to the business community.

3.2 It is evident from the sharp growth of BIDs across the country that this concept of “business-led local management” is being supported by the business communities. From the first renewal ballot success—held in Heart of London in February 2007—it is further demonstrated that businesses are seeing direct benefits and have thus supported the continuation of that BID.

3.3 The proposals relating to SBR have given cause for concern within the BID fraternity. The key concerns, against the main issues raised in the call for evidence, are as follows:
3.3.1 Accountability and Approval Mechanisms:

(a) BIDs have proved to be accountable and transparent due to the nature of operating at a very local level and therefore businesses may be keen to protect the concept of BIDs above a supplementary rate. The average number of businesses within a BID boundary is between 300 and 600 and as such is a very manageable number to ensure real engagement of businesses is taking place in the locality.

(b) If the supplementary rate can be applied through consultation only rather than through a voting mechanism, it may prove easier to implement a supplementary rate in an area rather than a BID levy that requires an independent ballot process. This would potentially prove damaging to existing BIDs at their renewal ballot point and indeed prevent the further development of BIDs in new areas.

(c) With the local authority being required to undertake an impact assessment, this should ensure that consideration of existing or planned BID levies are taken into account but there are clearly no guarantees and safeguards in place for businesses if the SBR does not require a voting mechanism.

(d) With only upper tier authorities being able to apply the supplementary rate, this means that the coverage of such a rate would be considerably wider than any BID mechanism although in some cases the two charges may be able to operate alongside each other within a wider strategic framework.

(e) But for London, it may be difficult for 33 boroughs, the GLA and the business community to reach an acceptable arrangement to apply a single supplementary rate across the capital. At the current time there are 16 BIDs in London, with more in the pipeline.

(f) With no universal time limit imposed, it may prove difficult to plan and predict when a supplementary rate may be applied and how this might affect an existing BID levy on a fixed term, especially when a renewal ballot is required in the case of BIDs at least every five years.

3.3.2 Appropriate Scale of the Supplement:

(a) The basic principle of implementing a supplementary rate and a BID levy in the same area may prove too much (in cost terms) for the local businesses to bear.

(b) In the vast majority of cases, the levy rate for BIDs is 1% of rateable value and this is being considered to be the “norm” by many businesses. Some have exceeded the 1% rate but only one BID in a “town centre” location has gone above 2%. Some industrial estates are looking at higher rates, but the maximum currently is 4%, and these higher rates reflect the considerably lower rateable values found in industrial areas.

(c) In a number of cases, a cap has been introduced to reduce the amount that disproportionately large businesses within an area are asked to pay. Without these caps, it is unlikely that these large businesses would be prepared to support the BID proposals at ballot.

3.3.3 Threshold for payments:

(a) The vast majority of BIDs have introduced a minimum threshold, below which businesses do not vote or pay for the levy. This threshold varies in each individual BID depending on the rateable values and the number and size of businesses in the area. The lowest thresholds tend to be £5,000 rateable value (that basically cuts out any business who would be paying less than £50 per annum in levy charge) and the highest threshold to date has been £250,000 rateable value (in New West End Company BID in the West End of London).

(b) There are also numerous examples of where special conditions are taken in account and reflected in the levy rules, for examples giving discounts to charities and discounting certain uses of property (upper floors, offices etc).

4. Summary

4.1 It is very clear from the experience of BIDs so far that the model is working because it has the ability to be developed and implemented in each locality in a very flexible way that is responding to full and thorough consultation with local businesses.

4.2 The BID companies are then continuing to have regular and comprehensive communication and engagement with the businesses that are paying the levy to ensure that they genuinely deliver value year on year to the business community.

4.3 Sophisticated levy rules are being used in the vast majority of cases to reflect the specific needs and circumstances within each locality.

4.4 If SBR is to be successful it will need to take on board the early lessons from the BID concept and recognise that local delivery to local areas is working and therefore should not be jeopardised.
Memorandum by the British Chambers of Commerce (SBR 9)

1. ABOUT THE BRITISH CHAMBERS OF COMMERCE

1.1 The British Chambers of Commerce (BCC) is the national voice of local business; a national network of quality-accredited Chambers of Commerce, uniquely positioned at the heart of every business community in the UK. The BCC represents 100,000 businesses of all sizes across all sectors of the economy which together employ over five million people.

2. SUMMARY OF BUSINESS VIEWS ON SUPPLEMENTARY BUSINESS RATES AND BUSINESS IMPROVEMENT DISTRICTS

2.1 The governance model offered by Business Improvement Districts (BIDs) is the preferred option amongst Chamber members. The business community acknowledges that additional investment is needed, specifically in transport infrastructure, but BIDs already offer a potential model for this. BIDs give businesses a vote and ensure certainty over the levy, scope and time frame of projects. Developing and improving BIDs should be favoured ahead of supplementary business rates (SBR) and should not be jeopardized by SBR.

2.2 A number in the business community tentatively believe that, with the governance model of BIDs and in particular a business vote, a supplementary business rate (SBR) could offer opportunities for additional investment whilst still ensuring full accountability to businesses. However, businesses would only consider an SBR for investment in transport infrastructure and this in turn would have to be subject to ring fencing and a vote by businesses on a clearly defined project.

2.3 Supplementary business rates must not simply be an additional tax on businesses. Any revenue raised if an SBR were introduced should not go into general Local Authority budgets. If that were to happen, it would be liable to be spent on services that do not have a direct bearing on economic development, as has been seen over the past three years with the Local Authority Business Growth Incentive Scheme (LABGI).

2.4 There is also a persistent issue about value for money from National Non-Domestic Rate (NNDR). Businesses do not receive good quality basic services from the rates that they currently pay, leading to scepticism and mistrust about any new levy. A business vote, with businesses on the steering group and having a say in how any additional revenue is spent, solely focused on transport infrastructure, would be the only means of garnering trust and support for an SBR.

3. ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

3.1 SBR risks being relocalisation by the back door unless a number of key criteria are met, all of which BIDs already ensure. The primary requirement is that businesses must have a vote. Without this, SBR would not have legitimacy or accountability. Consultation as it is usually conducted by Local Authorities would not be acceptable in relation to SBR. Accountability would have to be to businesses, not “the wider community” as proposed by Sir Michael Lyons as it would be businesses paying the levy, not the community as a whole.

3.2 Furthermore, the voting system and consultation process would have to be as simple as possible to ensure private sector engagement. It could even be designed by businesses to ensure it is fit for purpose.

3.3 To ensure accountability and approval, the money raised by an SBR would have to be ring fenced to investment in transport infrastructure, not go into general budgets. It would also need to be additional to existing government spending on economic development and transport, not a substitute for Highways Agency or Local Authority spending.

4. THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

4.1 Unlike with the National Non-Domestic Rate, if SBR were introduced, subject to the criteria demanded by businesses, the money would have to be retained locally to be spent on transport infrastructure in that specific area. Equalisation across the country would negate the role of an SBR, although it remains appropriate for the NNDR and the purposes which that serves.

5. THE APPROPRIATE SCALE OF THE SUPPLEMENT, THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

5.1 An SBR should only be introduced for a specific transport project, for which a clear business case has been made and the duration of the levy fixed at the start. It should not become an ongoing additional revenue stream for poorly defined projects that are not finished on time and to budget.

5.2 Many Chamber members believe that an SBR should only apply to larger businesses and those with a high turnover, with a similar relief scheme to that in place for NNDR. A one-size-fits-all scheme would be inappropriate. There is also a general sense that if an SBR were introduced, it should be at around two
pence to start with for the duration of the levy so that its effectiveness could be assessed. If it were successful and another infrastructure project were then identified, the scale of the levy could then be reviewed for a new term of the SBR.

Memorandum by Maidstone Borough Council (SBR 10)

1. ABOUT MAIDSTONE, THE PLACE

1.1 The Borough of Maidstone covers 40,000 hectares located at the heart of Kent. It includes a large urban area and substantial villages. Its countryside, set within the “Garden of England”, includes the Kent Downs area of Outstanding Beauty with a population of approximately 140,000, living in nearly 57,000 households, the Borough is home to 8.8% of the Kent and Medway population (2001 census) and borders Swale, Ashford, Tunbridge Wells, Tonbridge and Malling Borough Councils and Medway Unitary Authority. It is strategically situated between London and the Channel ports and is serviced by two trans-European motorway networks—the M20 and M2—and rail connections to central London.

1.2 78% of Maidstone’s population are owner/occupier households. Although the population of Kent has increased, Maidstone’s population has remained relatively static over the past 10 years. Many areas of Maidstone are relatively affluent (for example 42% of households have two or more cars or vans), it also has pockets of deprivation, such as Parkwood, Coombe Farm and High Street Wards. Previously in 2000, Shepway Ward ranked in the top 10% of most deprived Wards in England (and ranked eighth most deprived in Kent).

1.3 The Borough is home to a number of industries, both old and new. This includes paper, packaging and technology companies and a thriving media industry. The main employment sectors within the Borough are distribution, hotels and restaurants, public administration, education and health and banking, finance and insurance. The total non-domestic Rateable Value is in the region of £125 million.

2. THE COUNCIL

2.1 Maidstone Borough Council is one of twelve Kent District Councils. Following the Local Government Act 2000, the Council adopted a “Leader and Cabinet” political model in June 2001.

2.2 The Council has 55 Councillors and has been in “No Overall Control” for some years. There are 26 Conservative, 21 Liberal Democrat, four Labour and 4 Independent Councillors. The Cabinet consists of five Liberal Democrats and one Independent Councillors.

2.3 Each Cabinet Portfolio cuts across more than one service function to help make sure that the Council’s approach to issues is joined up.

2.4 The Cabinet are held to account by four Overview and Scrutiny Committees, an Audit Committee and there is a Standards Committee. The Council also has a Licensing Committee and a Planning Committee which take decisions on applications submitted to the Council.

2.5 Maidstone Borough Council is an “Excellent” Authority awarded this status in 2004 through the CPA process. Since then it has had good Use of Resources scores and very positive Direction of Travel comments from the External Auditors.

2.6 The Council has clear aims and aspirations detailed in its Maidstone 20/20 Vision, has a Strategic Plan for the period 2007–10 and a Medium Term Financial Strategy covering the next five financial years.

2.7 The Council is well advanced in terms of addressing the requirements of the Local Development Framework and was the first Authority to receive approval to its Affordable Housing and Open Space Development Plan documents. It has achieved Growth Point Status and has been awarded £1.5 million 2007–08 with a aspiration for significantly greater sums in the future. As part of this overall assessment of the Council’s current position and its future aims and aspirations, it is well aware of the infrastructure investment deficit in the area and the need for this to be rectified to meet the needs of the people and businesses of Maidstone.

2.8 The Council has worked hard with all its partners, particularly the Highways Authority, KCC, but is also aware of the severe financial constraints facing those partners and Local Government in particular. These constraints include very tight grant settlements from Central Government and the effective reimposition of universal capping on potential Council Tax increases. To address this financial problem and in an attempt to meet the aspirations for Service Development of the Council, it has embraced many initiatives for the achievement of efficiency savings. It embraced new ways of working, investment in IT, business transformation processes, invest to save resources, joint working with partners and the reallocation of resources from low priority services to objectives.

2.9 The Council endorses the general analysis of the problems of Local Government as set out in the Lyons Report and the Direction of Travel described in that report. The Council is particularly enthusiastic regarding the emphasis on place shaping, local choice and greater financial flexibility to address problems.
3. **BIDs**

3.1 The Council was keen to embrace the concept of BIDs and over the past three years has endorsed two unsuccessful BID programmes.

3.2 Maidstone Town Centre Management has twice examined the introduction of a Business Improvement District and was seeking a levy of 1% on every business where rateable value was in excess of £5,000. This would have generated an income of £335,000 a year for 10 years. This income would have provided for:

- safer streets;
- better transport and access;
- a cleaner environment; and
- more customers.

3.3 Surveys were carried out at the time of the BID process by the Town Centre Management which showed that 80% of individuals and 57% of companies supported the principle of establishing a BID in Maidstone. However, when it came to the actual vote as to whether to declare the BID the decision went against the proposal but only by a small number. The issues appear to have been one of trust, as to whether the money would have been spent appropriately, and a view that the existing rate system should be providing for these items.

4. **Infrastructure Deficit**

4.1 As a part of a recent employment study the Council surveyed a range of businesses in relation to their location requirements and what came from that, was that their priorities are:

- high quality environment;
- fast access to the motorway;
- recruitment of staff; and
- public transport links.

The view of the respondents was that the public sector should address these issues.

4.2 The issues of concern to the Business Community are clear from both surveys, what is absent however is the financial resource to address them. Maidstone has recently been identified as a Growth Point, and one of the key issues is to deliver a sustainable community ie balancing housing provision, employment, environment and infrastructure. Government is clearly placing great emphasis on the role for Local Authorities of “place shaping”. Whilst the infrastructure for new development can be funded through Development Agreements (S106 of the Planning Act), this does not deal with the issue of the infrastructure deficit that exists within the existing urban, rural and social fabric.

4.3 A supplementary business rate applied over a 20 year period would enable the provision of the necessary infrastructure to deal with existing deficiencies in transportation, the environment, and training of people. However, in order to have the trust of the business community it is critical that they are engaged in this process and can see the tangible effect in terms of delivery of service by the public sector. It may be that the money should be channelled through the Local Strategic Partnership which may encourage businesses to participate fully in the LSP. However, the final decision on the allocation of resources should remain with the Council.

5. **Supplementary Business Rates (SBR)**

5.1 Using the knowledge and experience of problems facing the Council and the conclusions from the BID process, the Council would like to put forward the following comments on the six issues identified in your request for a Memorandum:

(a) **The Rationale for Introduction of a Supplementary Business Rate.**

The Council would endorse the rationale as set out in the Lyons Report.

(b) **Accountability and Approval Mechanisms for the Introduction of a Supplementary Business Rate at a Local Level—the Role of Business and the Wider Community.**

The Council is of the view that, in Shire areas, the responsibility for levying and controlling the Supplementary Business Rate should be with the District Council. The District Council has primary responsibility for local economic development as evidenced by the LABGI awards and wider responsibility for place shaping.
Consultation with local business would be necessary and a compact with the Highways Authority on a programme of work to be funded by the levy would be necessary. Consultation could well involve the Local Strategic Partnership (LSP) which involves the Highways Authority and the local business community and could be managed through the Local Area Agreement (LAA).

The impact assessment necessary to justify the proposed works would evolve through the Local Economic Development Strategy and the Local Development Framework processes.

(c) Consideration of Implementation Issues, including the Impact on Local Authorities’ Tax Bill and Decision Making in Two Tier Local Authority Areas.

The Supplementary Business Rate will allow infrastructure problems to be addressed and will, in reality, in the short to medium term, have little or no impact on the level of Council Tax. It will, however, give the Local Authority greater flexibility to address significant issues which currently are not being addressed.

The Supplementary Business Rate will need to be guaranteed over the medium to long term as it is likely that larger infrastructure schemes will be funded, possibly by borrowing, which require surety of funding. Without this surety, the risk to longer term financial viability will rest with the District Council.

(d) The Impact of a Supplementary Business Rate on Equalisation.

The Supplementary Business Rate should be levied, collected and accounted for by the District Council, but be outside of the current arrangements for the Collection Fund and National Pooling. In the short term this should have no impact on equalisation. The question of equalisation should be only further considered as a consequence of the potential relocalisation of the business rate.

(e) The Appropriate Scale of the Supplement.

To boost confidence, the levels of the supplement should follow the pattern of BID’s and build up over a period to minimise the impact on the business community. This will also reflect the fact that the investment needed to be covered would be likely to build up in terms of financial commitment over a medium term period.

(f) The Threshold for Payments and Whether Small Businesses should be required to pay.

It would appear to be appropriate for relief from the supplement to follow the Small Business Rate Relief Scheme, although it is accepted that it may be appropriate for the legislation to allow the Council to consider wider exclusions or exemptions, if necessary to deliver a Local Economic Development Outcome.

Memorandum by Canterbury City Council (SBR 11)

Canterbury City Council is a district council in Kent. Kent is a two tier area of local government and, as the district council, Canterbury collects the business rates. Canterbury is a regional hub for transport, economic development and culture. There has been significant commercial development recently with a new £140 million retail development having been completed. Mainly as a result of that the council has received capped amounts from the Local Authority Business Growth Incentive scheme. The biggest single rate account is a large multiple grocer who pays £1067820. The city council is the largest ratepayer on a cumulative basis and the county council would have been had the schools rates been paid centrally rather than by schools.

The Rationale for Introduction of a Supplementary Business Rate

1. The City Council supported the Local Government Association campaign for the full return of business rates to local authorities. Following the introduction of the national business rate there was a disengagement with the business community. In addition, the level at which the national rate has increased means that the burden of funding local government expenditure has shifted to the council tax payer and that is part of the cause of the discontent with council tax. If local authorities had control over the fixing of the business rate they would be more able to ensure a proper balance of the burdens on residents and businesses. The Local Government Association has shown that if business still paid for the same share of local government finance as it did in 1997–98 council tax bills could be £250 lower. A 10% supplement would bring business contributions back to the level they were in the 1990’s.

2. If full return of business rates is not to happen then the supplementary business rate will, at least in part, resolve the imbalance in the tax burden between council tax payers and businesses. The supplementary rate will also ensure the wider businesses community becomes more engaged with the well being of the area and the funding will assist with implementing major infrastructure projects.
ACCOUNTABILITY AND APPROVAL MECHANISMS

3. I have read that some elements of the business community representatives seek a position whereby each business has a vote. In my view that is a tactic designed to scupper the proposal. Surely they can recognise through such as Local Strategic Partnerships and the many other partnerships which exist in local areas that there is a much greater opportunity to participate in the development of spending plans for an area and their position dates back to the 1970s and 80s. Things have moved on.

4. I also find it bizarre that business argues so strongly that “the issue of accountability is fundamental to business”. Where is the accountability in respect of the national uniform rate? Businesses do not have a vote over that. So they have no vote over the 44 pence in the pound charge but they are adamant that they must have a vote over whether local councils raise four pence in the pound. Strange.

5. The reason the current rate is acceptable is because their burden decreased substantially and the increase is limited to Retail Price Index thus protecting them from funding their true share of costs and thereby increasing the burden on local tax payers.

6. The Business Representatives on the Local Strategic Partnerships should be the ones able to speak for the business community but the businesses should not have a right of veto. A wider business forum could be created relatively easily in most areas if the LSP were not considered to be sufficiently representative of business interests.

7. The DTLR Green paper Modernising Local Government Finance set out proposals for “partnership Agreements” as a way of dealing with these. I believe those proposals were overly cumbersome but they may give some pointers to how the approval process could work.

8. I do not believe the BID scheme is a model which can be used for the supplementary business rate scheme. They are very focused on an immediate area whereas the supplementary rate will cover a much greater area and individual small businesses will not see the benefits as readily.

9. Accountability should be through the LSPs or the wider business forum if set up. Drawing on something from the Green Paper it could be that the legislation provides that the supplement cannot be greater than 2% in year one and that it can increase by a further 2% maximum each year up to 10% maximum in total. A further control could be that there is a link to the increase in council tax. On the basis the largest ratepayer in Canterbury would pay an extra £21356 on their £1 million bill which would not be material in their overall costs. And yet, as mentioned earlier, we are led to believe there must be accountability over the £21356 exercised by way of a vote but they do not demand a vote over the £1million bill derived from the national business rate.

IMPLEMENTATION ISSUES AND DECISION MAKING IN TWO TIER AREAS

10. Local authority spending is becoming increasingly constrained with the threat of capping existing and tighter revenue support settlements. At the same time demands are growing and these include demands from business for better street level services but also for more infrastructure investment to assist economic development. It is likely that businesses will identify with the more local needs rather than wider county based needs, but some of those local aspects may be the county council’s responsibility. The LSP Executive should recommend the appropriate split, if any, in the application of the supplementary rate.

IMPACT ON EQUALISATION

11. I do not believe this is a significant issue for the supplementary rate.

APPROPRIATE SCALE OF SUPPLEMENT

12. I believe up to 10% of the national rate is not unreasonable. This is approximately the four pence Lyons mentions. But see point above about 2% maximum increase.

13. In Canterbury 700 accounts pay nothing, 3,100 pay less than £5,000, 65 pay over £100000, and a further six pay over £400000. None of these should not be able to afford the supplement at 2%

THRESHOLD FOR PAYMENTS AND SHOULD SMALL BUSINESSES PAY

14. I do not see any reason for implementing a threshold for payment. The rate will be paid with the main payment and collection authorities will apportion what goes to the national pool and what goes to the county, police, fire and to the district. Small businesses should pay the rate. If the overall rate were to cause hardship for a business then it can apply for hardship relief using the existing hardship provisions.
Memorandum by the City of London Corporation (SBR 12)

INTRODUCTION

1. The City of London Corporation serves some 9,000 residents and a daytime working population of over 300,000 and, through the policies it pursues and the services it provides, is committed to maintaining and enhancing the status of the City both for residents and for the business community as the world’s leading international financial and business centre. Apart from its responsibilities within the Square Mile (which include all the local government services carried out elsewhere by the London Boroughs) it also undertakes many other activities which are not geographically confined, not least the international promotion of the financial and business related services sector. Promotional activity is enhanced through a substantial research programme on issues of concern to the City as an international financial centre, a City Brussels Office dealing specifically with the EU, and representations in India and China. There are close ties with central Government departments especially the Treasury, the Foreign & Commonwealth Office and UK Trade and Investment.

2. The Common Council, as an executive of the City Corporation, exercises both public and private functions, but consideration of the public functions alone demonstrates how little comparison the City bears to London boroughs, or local government more generally. For example, it is also the Police Authority for the City of London Police, the Port Health Authority for the tidal Thames and, through the Barbican Centre, is a major contributor to the Arts. By way of example, spending on education and social services usually represents the largest component of a London Borough’s budget but in the City of London this element represents less than 8% of the City’s “local authority” spending. In contrast, the largest proportion of government grant to the Common Council is for the police, a function which is not even exercised by the boroughs or, for that matter, any other local authority. The London Port Health Authority stretches from Teddington to the Crouch and Medway and assessing its funding requirements bears no relationship to standard parameters. The Barbican Centre makes a valuable contribution to international promotion of London on which the City depends and could not be considered as simply a local resource.

THE CITY’S “SPECIAL ARRANGEMENTS”

3. “Local” services in the City of London are directed not so much at the small residential population (though their interests are protected) but more at a huge centre of business. The extent to which the City is exceptional in this respect is exemplified by the fact that the application of the Community Charge (Poll Tax) in the City through the Local Government Finance Act 1988 would have given an unaffordable charge of over £2,000 per person according to Department of Environment calculations at the time. That result was avoided by making specific statutory provision, necessary for the City (but no other area) to give a sensible level of charge.

4. The City’s “Special Arrangements” were, however, adversely modified in 2004–05. The key features up until 2003–04 included provision to allow excess spending over Standard Spending Assessment (SSA) (subsequently FSS—Formula Spending Share—and further amended from 2006–07 onwards) and Police Grant to be shared in the ratio of 99:1 between business ratepayers and council tax payers after an additional “allowance” to meet this excess provided in the form of an Offset from contributions to the national business rates pool. From 1994–2005 to 2003–04 inclusive the Offset was set annually at £6.5 million, having previously been higher in the financial years from 1990–91 to 1993–94. In 2004–05 the ODPM varied these “special arrangements” by setting the Offset at zero, following the major formula review which was introduced in 2003–04. Over the past decade the system has produced a very poor outcome for the City Corporation in terms of RSG settlements.

5. In addition the City Corporation retains the right to set a Business Rate at a different level to the National Non-Domestic Rate (NNDR). In 2003/04 for the first time the City Corporation exercised its power to vary the NNDR. Following extensive consultation with the business community, a premium was levied in 2003–04 for police and security purposes. It should be noted that, unlike the Metropolitan Police, the City of London receives no extra government grant for its capital city policing responsibilities.

RELATIONSHIP WITH RESIDENTS AND THE BUSINESS COMMUNITY

6. The City Corporation is fully aware of the needs of its residents and has sought to ensure their interests are protected by ensuring that the influence of residential voters is maintained in those wards where it currently predominates. The reforms to the City’s electoral franchise in 2002 maintained the proportion of 20% of Members representing residential wards on the Common Council. Members representing residential wards were also guaranteed seats on certain City Corporation Committees. The City Corporation engages with its resident community through a number of fora, not least regular resident meetings.

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1 This was initially set at 0.3p (0.7%) and subsequently increased to 0.4p (0.9%) for 2006–07 and 2007–08.
7. In addition to the direct representation of business on its governing bodies, referred to below, the City Corporation employs a wide range of methods to engage with its business constituency including its corporate contact programme, essential business involvement in international promotional activity, and regular meetings of working groups discussing public affairs in general and particularly EU-related matters. Taken in conjunction with the local strategic partnership, “The City Together”, intensive contact with senior business figures by the Lord Mayor and the Chairman of the Policy and Resources Committee, and the discussion of planning and property issues with City occupiers, the City Corporation is confident that it is well-informed about the opportunities and challenges facing its constituents.

8. As is well known, City businesses have a unique and direct input into the City Corporation’s decision making process through its electoral system. The City of London (Ward Elections) Act 2002 introduced new voting arrangements allowing the City Corporation to become more effective and representative of the modern business City. Under the reformed system, any incorporated or unincorporated body now has an entitlement to vote as long as it physically occupies premises within the City. The weighting of voting entitlement is related to the number of people employed. This approach, of linking voting strength to size of organisation, is mirrored in the Business Improvement District (BID) scheme introduced by the Local Government Act 2003.

9. It would be tempting to view the City of London as a macro BID. Under the BID structure, businesses vote to establish a BID and then the BID board decides how the money raised by a supplementary levy on all businesses in the area is to be spent on local improvements. In the City the Common Council is analogous to the BID board and the electorate is the representatives of the businesses (and others) within the area. The City, however, has a direct form of engagement with the participating businesses because the members of the Common Council are directly elected and the reformed franchise means that all businesses have an opportunity to participate in that process. The consequence is that the Corporation is highly responsive to the needs of the financial and business communities, its constituents.

10. Unlike a BID board however, the Common Council effectively has no role (other than in the case of the small premium currently levied on the NNDR) in setting the level of contribution businesses should make to provide local services. This situation is all the more remarkable given business voters constitute over 70% of the Common Council’s electorate but, at present, only a very small proportion of its expenditure is met directly from locally determined business rates as opposed to the element that is redistributed through the national grant arrangements. This is unsatisfactory in accountability terms.

THE LYONS REVIEW

11. During the Lyons Review, the City Corporation submitted formal written evidence to the inquiry emphasising the City’s unique position in terms of local government finance. As a result the City of London Corporation supports the principle of Sir Michael’s recommendation, as outlined in his final report, to allow local authorities to levy a supplementary business rate. Sir Michael suggests the “London-wide supplementary rate would be set through agreement between the GLA and the boroughs, and in consultation with the business community, with a joint plan for the use of the revenues collected from that rate”. An attempt to find agreement between the GLA, 32 London Boroughs and the City could be problematic. In London, the City Corporation would, in accordance with the principle of subsidiarity, advocate any new power being vested in the boroughs and the City rather than in the Mayor or GLA to allow for sufficient local accountability. There are arguments, however, in favour of the involvement of the Greater London Authority in deciding how to apply at least a proportion of the funds generated by the supplementary rate. The City would suggest large scale infrastructure projects which have an impact across the London economy, such as Crossrail for example, would be obvious candidates for the application of such funds whereas any remainder could be retained by the local authority for use on local schemes.

12. Additional preparatory work will need to be undertaken before more firm proposals for the levy are introduced, not least on the mechanism for deciding the level of the supplementary rate in the boroughs which do not have the same level of accountability to the business community as is the case in the City. The thresholds over which the new rate will apply will also need to be clearly defined as will the parameters within which the supplementary rate will operate. Wider concerns should also be taken into account including the potential impact of an additional business tax on international competitiveness.

13. Sir Michael’s report makes clear however that “This London-wide supplement would be in addition to the Corporation of London’s current powers, which should continue to operate as at present”. In this regard, the City of London Corporation is in full agreement with Sir Michael. The City’s existing powers have worked well in the relatively short period they have been used and retain business support. This position should not be jeopardised. The City’s unique composition provides the appropriate mechanism to ensure engagement with business on both the levying of the rate and use of resources generated by the rate.

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3 ibid.
Memorandum by Devon County Council (SBR 13)

i. Sir Michael Lyons’s recent report to Government on local government\(^4\) included a proposal that local authorities be permitted to introduce a supplementary business rate.

ii. On 8 May 2007, the Communities and Local Government Committee decided to conduct an inquiry into the implications of a supplementary business rate. As part of this inquiry, the Committee called for written evidence to be submitted by 8th June 2007, including addressing the following issues:

   - the rationale for introduction of a supplementary business rate;
   - accountability and approval mechanisms for the introduction of a supplementary business rate at a local level—the role of business and the wider community;
   - consideration of implementation issues, including the impact on local authority tax bills and decision-making in two-tier local authority areas;
   - the impact of a supplementary business rate on (grant) equalisation;
   - the appropriate scale of the supplement; and
   - the threshold for payments and whether small businesses should be required to pay.

iii. Devon County Council would like to offer the following commentary in response to this invitation to submit evidence. At this early stage, our understanding of the implications of a supplementary business rate are still relatively simplistic, and we will need to engage in more detailed discussions with the business community before coming to a final view. The comments expressed here represent our initial impressions, given the information currently available.

iv. Devon County Council is one of the 150 “upper-tier” local authorities in England that the Lyons Report suggests would be appropriate accountable bodies for a supplementary business rate. The county council is the largest member of the Devon family of councils, which also includes eight district councils and over 400 town and parish councils, as well as specialist single-purpose authorities for fire, police and national parks. Collectively, these authorities provide services for 731,000 people. Businesses in the Devon CC area have a combined rateable value in excess of £430 million. There are also two unitary authorities in the historic county of Devon, which provide services for a further 370,000 people and businesses with an additional rateable value of just under £250 million. Although unemployment is below the national average, so are the wages of those in work. The Gross Value Added per head achieved within Devon trails well behind that achieved by the country as a whole, which is we believe is partially attributable to transport infrastructure.\(^5\)

1. **THE RATIONALE FOR A SUPPLEMENTARY BUSINESS RATE**

   1.1 The current funding framework for local government ensures that long-term capital investment is almost entirely centred around central government priorities. In particular, it is no accident that most of the possible applications of a supplementary business tax mentioned to date refer to transport in one fashion or another, because this is an issue that is dominated by national funding arrangements. There is a pressing need for a readily understood framework within which organisations in those areas not regarded as a national priority can nonetheless work collaboratively in order to deliver improvements in infrastructure. Furthermore, there needs to be clarity about the means by which schemes identified by such a framework would be financed. While a separate non-domestic rate is not the only means by which businesses could contribute, it would be relatively straightforward compared to the introduction of a completely separate structure.

   1.2 In order to fully understand whether a supplementary business rate is the best possible financing solution, we need better information from the Government in respect of how such a tax would inter-relate with:

      - reforms to the planning process for major developments—which could have the effect of directing local choices back towards national priorities;
      - road-user charging—the proceeds from which might be an alternative route for funding local transport infrastructure;
      - existing initiatives such as Business Improvement Districts and the Local Business Growth Incentives scheme;
      - other potential new initiatives, such as Planning Gain Supplement; and

\(^4\) *Place-shaping: a shared ambition for the future of local government* [March 2007].

\(^5\) Our own local estimates suggest that GVA per head within Devon is highest where access to strategic road & rail links exist. Earnings data also suggests a link between lower earnings in the north of the county and transport infrastructure.
1.3 We accept that an argument can be made that non-domestic rates are not an ideal basis on which to structure contributions, since such taxes have proportionately greater impact on small and medium-sized enterprises, and on manufacturing and retail operations. More fundamentally, property taxes bear only a very indirect relationship to the profitability of the businesses based within them. However, there is a marked lack of a suitable alternative basis at a local level. Local profits achieved by national and international companies are unidentifiable: the same is probably also true of turnover. One option to remove the worst anomalies of a property-based tax would be to ensure that the legal framework allows for local negotiation regarding the precise structure of contributions: one good test of the merits of a proposal is whether the enthusiasts are prepared to pay more, or merely favour projects if paid for by someone else.

1.4 Although Sir Michael refers to a “supplementary” rate, there are other means by which the same goal of a local tax contribution from businesses could be achieved—for example, the Government could elect to pool just a proportion of non-domestic rate income (say, 90%), leaving the balance for local use. We recognise that collectively the local authorities in Devon receive around a sixth more from the national non-domestic rating pool than they contribute, so any reduction in pooling could be to our detriment. Nevertheless, it is worth pointing out that a relatively simple split of this sort could serve the same purpose as a supplementary tax and also replace the very complicated Local Authority Business Growth Incentive scheme, while providing a far more stable basis for long-term planning of investment needs. The re-localised element of the non-domestic rate could be directed into a ring-fenced account for long-term investment in much the same way as a supplementary tax would be, and could be subject to similar consultation arrangements regarding its use—but without the need for a complex and undoubtedly controversial approval mechanism being required to establish an additional revenue stream.

1.5 One of the recurrent themes in Sir Michael’s report was the need to build trust between taxpayers and the public sector, and between different elements of the public sector. In this respect, the possibility of a supplementary business rate is a good case study, since it provides the opportunity to explore both the concerns of the business sector regarding the risk of being financially exploited, and the concerns of local government that new forms of revenue will end up being directed towards objectives selected by national government.

1.6 We understand the suspicions expressed by some business representatives that supplementary business rates are being proposed as an alternative to partial re-localisation of a standard rate as an indirect means of increasing taxes paid by businesses overall. We have some sympathy with that view. The “additionality” of income generated by a supplementary tax will be extremely difficult to prove, as once central government bodies become aware of potential access to this source of revenue, it may influence (even if not formally) their allocation of grant funding for housing, economic development & transport. Greater transparency in the allocation of infrastructure funding would help to reassure all parties concerned that any supplementary tax would genuinely fund additional investment, rather than serve as a substitute form of finance. Businesses may be further reassured if they know in advance that—in addition to their contributions by virtue of being non-domestic taxpayers in their own right—local authorities will also be required to contribute part of the funding for proposed projects from existing sources, rather than rely on the supplementary tax as the sole source of funding.

2. Equalisation

2.1 There is an intrinsic conflict between the introduction of incentives for an area to improve their own wealth-generating capacity and equalisation of taxable capacity. Supplementary tax powers would merely alter the timing of the impact of such conflicts, rather than remove them altogether. If the investment initially funded by supplementary business rates does indeed eventually result in a rise in property prices, as Sir Michael suggests will be the case, then to some extent and over the long-term, businesses will end up paying twice—at the outset and via increased rateable values at subsequent valuations. However, under current arrangements, the “second payment” due to increased rateable values would almost certainly end up in the national non-domestic rating pool, which is in turn used to finance general Government grants to local authorities as a whole—thus becoming only of indirect benefit to the local area. The only certain way to prevent this long-term disincentive from occurring would be to introduce a parallel commitment that the benefits of any future revaluation would be retained locally—which in turn would require a freeze in pooling/grant equalisation at the date that supplementary tax powers are introduced. This brings us back to the earlier suggestion that partial re-localisation of the proceeds of the national non-domestic rate may be a simpler solution than a supplementary tax, with much the same long-term effects.

6 Although the Lyons Report also referred to the interaction between property taxes and market rents, our view is that such effects are less likely for supplementary taxes introduced for a fixed period.

7 The amounts receivable by individual local authorities from LABGI varies widely, but in Devon’s case, is roughly equivalent to the proceeds from a 1p supplementary tax rate.

8 Potentially, three times if Planning Gain Supplement is introduced as well—although this last form of tax might only be triggered when properties change hands, depending on precisely how the tax is structured.
2.2 Incidentally, such conflicts between incentives and equalisation are not confined to non-domestic rates. Any local investment funded by local council taxpayers through higher taxes could result in a loss of grant funding at a later date—if the result is to improve property values, if the Government does eventually re-value domestic properties, and if the results of that re-valuation are matched by increases in the level of equalisation within Formula Grant or successor funding stream. Although this is a convoluted string of conditional statements, it does serve to illustrate the conundrum that many local authorities face under the current financial framework.

3. Scale

3.1 The non-domestic property tax-base is unevenly distributed, both regionally and within regions. At a regional level, property values are at their highest in London and tend to decline in proportion to travel time to the capital. Within regions, taxes based on non-domestic property values will tend to produce greater yields in urban areas with a high proportion of retail and commercial development. In addition, we believe that confidence in the ability of investment to improve future economic prospects will tend to be highest in those areas already experiencing high growth. Therefore, in practice, it seems likely that if powers to raise a supplementary business rate are introduced, then they would be used primarily (if at all) within the major urban conurbations and—to a lesser extent—in other urban areas already experiencing growth, such as the Thames Gateway. Other areas would not have a sufficiently large initial tax base to raise enough money to support the sort of schemes that Sir Michael envisaged a supplementary business rate being used for, although the same concepts could be applied to a series of more modest projects directed at achieving a cumulative benefit over a much longer period.

3.2 Sir Michael was careful not to propose a specific limit on the size of a supplementary tax, other than to note that no Business Improvement District (BID) has succeeded in gaining business approval for a tax rate of more than 4p. We suspect that in practice, any mechanism based on voting rights over the level of tax would turn out to be self-regulating, without any need for central Government to specify a maximum tax rate. If further safeguards are required, then these could take the form of a series of thresholds for taxpayer support that increase in line with the supplementary rate sought. For example:

- a minimum of 20% of non-domestic tax payers must support a 1p supplementary rate, a minimum of 30% of non-domestic tax payers must support a 2p supplementary rate, 40% of non-domestic tax payers must support a 3p supplementary rate, etc; or
- a simple majority is required to support a 1p supplementary rate before it can be introduced—but for a 2p supplementary rate to be introduced, the margin of majority must be at least five percentage points; for a 3p supplementary rate, the margin must be 10 percentage points; for a 4p supplementary rate, the margin must be 15 percentage points, etc; or
- a supplementary tax rate of up to 1p can be introduced if a survey of 10% of all affected businesses shows a majority in favour, but a majority in support from a poll of all affected businesses is required for proposals to introduce a supplementary tax rate of more than 1p.

4. Relationship with Business Improvement Districts

4.1 If introduced, supplementary business rates must be clearly differentiated from the existing Business Improvement Districts. The simplest way of achieving this objective would be to confine the power to introduce a supplementary business rate to circumstances where a BID would not be possible—for example, for schemes that would take more than five years to implement, or which would span more than one district council area. There would also need to be some safeguards regarding the cumulative impact of both supplementary business rates and BIDs on non-domestic ratepayers. One option here would be to give the Secretary of State reserve intervention powers, which can only be triggered by a vote of business representatives—effectively, a vote of no confidence in the relevant local authority(ies) to consider their concerns adequately. The precise form that such a vote would take would need to reflect the wider governance arrangements envisaged for the introduction and implementation of the supplementary business rate itself. Further commentary on governance issues is provided later in this document.

5. Accountability and Approval Mechanisms

5.1 It is our view that, as far as possible, the governance of a supplementary business rate should be linked to wider stakeholder governance arrangements for long term strategy (eg, upper-tier strategic partnerships), rather than establishing separate arrangements. The use of the strategic partnership framework helps to minimise bureaucracy and ensure that this revenue-raising power is considered in the context of long-term strategy. Local businesses already tend to be represented in strategic partnerships, and a role in determining

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9 Devon has a rateable value in excess of £430 million. It would take the proceeds of a 1p supplementary tax for the whole of Devon for 10 years to meet the gross cost of just one major bypass scheme: even when supplemented with funding from other sources, this does suggest that projects funded this way would be few and far between, even if powers to introduce such a tax were to be introduced.
the level and use of a supplementary tax is likely to encourage even greater participation. Similarly, district councils tend to be represented on the governing boards of upper-tier strategic partnerships, so a separate structure would seem to be redundant. However, we can envisage circumstances in which a wider governance structure would be required for projects covering areas served by a mix of unitary and two-tier structures—more of which later.

5.2 While we believe that businesses would accept this arrangement as a way of initiating proposals to introduce a supplementary tax and to manage the resulting proceeds, they are likely to seek assurances that some form of robust evidence showing wider endorsement by non-domestic ratepayers is produced before any such tax can be implemented. The form of endorsement most commonly proposed is a voting process, although BIDs have shown that this can generate problems of its own: for example, unlike domestic house-holders, who can only vote in once regardless of how many properties they own, large businesses could end up with multiple voting rights. In addition, as Sir Michael pointed out in his report, it can be extremely difficult to achieve a critical mass in favour of projects with long-term benefits.

5.3 It is much easier to discuss the issue of appropriate endorsement methods with business representatives in the context of proposals for a specific project that might be financed in part from a supplementary tax than in terms of a purely hypothetical situation. At this early stage, we have no specific proposals to offer regarding the form that business endorsement should take.

5.4 We have considered the use of the Local Area Agreement as a governance framework for a supplementary business rate, and have regretfully come to the conclusion that it is unsuitable—at least in its current form.

— Local Area Agreements only run for three years at a time, so the focus is too short-term to be suitable for consideration of long term investment needs.

— Central Government currently determines far too many of the supposedly “local” priorities within Local Area Agreements for us to be confident about using the same structure to manage additional revenue streams.

5.5 Devon is served by local authorities operating a mixture of unitary and two-tier structures, but the only land boundaries the unitary authorities have is with “two-tier” Devon (Tamar Bridge notwithstanding): as a result, most strategic infrastructure issues need to be addressed at a scale wider than that covered by the Local Area Agreement (or strategic partnerships as currently formulated). The concept of a Multi-Area Agreement has been raised on a number of occasions, and this may be yet another instance where such a structure could prove useful.

5.6 We can see the merit of a nested governance structure that allows for consideration of long-term investment needs over 10 to 20 years, and more detailed plans relating to service provision over three to five years. The Devon Strategic Partnership is already some way towards achieving this goal, although the inter-relationship between areas served by unitary and two-tier structures requires further development.

5.7 Upper-tier authorities vary tremendously in size, from the Isles of Scilly to Kent: it seems highly unlikely that infrastructure projects will always fit neatly within the boundary of a single authority, or that they will all be of benefit to every community within that authority. In order to be able to adequately reflect the complex inter-related nature of the communities that we serve, the legislative framework for supplementary business rates ought to allow for the possibility of:

(a) agreements to pool SBR proceeds that run across more than one upper-tier authority—eg, based on historic counties or travel to work areas;

(b) SBRs that cover just parts of upper-tier authorities—either travel to work areas again, or new growth points—possibly by allowance for some form of tapering contribution based on distance from proposed projects. This would reflect the flexibility already allowed in defining a Business Improvement District, but in addition would allow for agreements that (in two-tier areas) cross district boundaries, and which run for more than five years.

5.8 Proceeds from a Supplementary Business Rate should be accounted for separately, and held in a separate ring-fenced account. However, it is unlikely that supplementary taxes will be the sole source of funding for any project, so there will only be an indirect relationship between the amounts raised and the total cost of the scheme.

10 BIDs tend to use a separate company to manage proceeds from the supplementary tax raised. This model is less appropriate for supplementary taxes raised in order to finance part of a major public infrastructure project.

11 More information about the structure of the Devon Strategic Partnership can be found at: http://www.devonsp.org.uk/about.html
6 SMALL BUSINESSES

6.1 Small business protection would be a necessity, although the precise design may vary according to the nature of proposed projects which the supplementary tax would fund. The current adjustment to the NNDR “multiplier” for small businesses is small (0.3p): any further adjustments to the multiplier should be kept as simple as possible. A further alternative would be to exempt businesses with less than 250 full-time equivalent employees12 from any supplementary tax.

7. IMPLEMENTATION

7.1 In the event that agreement is reached on the introduction of a supplementary tax, the billing authorities will need to ensure that their systems can be modified to calculate the tax liability for individual businesses, and that supporting information can be supplied to those businesses so that they know how much extra they are paying for, and what that additional payment will finance.

7.2 The extent to which systems modifications are required will depend to a large extent on how complex the supplementary tax is, either in terms of coverage or differentiation between the circumstances of individual businesses in setting the tax rate: we have mentioned the possibility of tax rates varying according to the size of the business or its proximity to the proposed project, for example.

7.3 The provision of supporting information ought to be relatively straightforward, although it may necessitate additional inserts into standard tax documentation where the tax is introduced for just part of a billing authority area. The designated accountable body would be responsible for producing documentation showing what the proposed tax would be used for, and how it had actually been used. Rather than rely solely on information accompanying annual tax demands, our expectation is that regular updates regarding progress with schemes funded through supplementary taxes would be included on the accountable body’s web-site, and via electronic newsletters already circulated to the business community. The current status of the ring-fenced supplementary tax account is also likely to feature in the budget consultations with the business sector that are already a statutory requirement.

7.4 Pooling of proceeds into a separate ring-fenced account should also be straightforward. The current procedures of billing authorities would need to be modified slightly, since the proceeds of the supplementary tax would be paid over to an account held locally, rather than to central government as part of the NNDR proceeds. In unitary authorities, this would be an internal transaction, while in two-tier areas, payment arrangements would be based on those for payment of Council Tax precepts. Where the supplementary tax spans more than one unitary authority or county council, one of these bodies will need to be designated as the accountable body for the tax as a whole, and manage the pooled amount on behalf of the rest.

7.5 All local authorities already have well-established processes for administering external funds which could be adapted very easily to accommodate the proceeds of a supplementary non-domestic tax. Further assurance would be provided via external audit of the ring-fenced account.

Memorandum by the Royal Institute of Chartered Surveyors (RICS) (SBR 14)

The Royal Institution of Chartered Surveyors (RICS) represents the views and interests of 130,000 Chartered Surveyors worldwide covering all aspects of land, property and construction. RICS is regulated by its Royal Charter with the objective of promoting the public good. This allows RICS to comment independently on matters that it perceives to be relevant to its profession.

RICS RESPONSE

We welcome the opportunity to respond to the call for evidence by the Communities and Local Government Committee. This paper sets out the RICS response to the proposals regarding Supplementary Local Rate, set out in Chapter 8 (paragraphs 8.39-8.71) of the Final Report of the Lyons Inquiry.

SUMMARY OF RICS RESPONSE

— We do not support the introduction of a local supplementary rate as we believe it damages the predictability and stability of the existing system of local business rates, which is a major strength of the system.

— The existing Uniform Business Rate (UBR) is set at a high level, both in comparison to other UK tax rates and in comparison to local property taxes in other European countries.

— There is therefore little sound economic reason for introducing a supplement, and little enthusiasm from the business community for such a supplement.

12 This is the definition of a small business usually applied by central Government for the purposes of Regulatory Impact Assessments, and we have a strong preference for using consistent definitions wherever possible.
— Because of this there will be resistance to what will be seen as a “new” tax burden and it will be important that any supplement is structured in such a way as to ensure its credibility.

— Ideally, an element of existing UBR should be set within the control of local authorities with local authorities free to retain a yield up to that amount or to collect less than the full local element.

— If, however, a supplement on existing UBR is to be introduced it should be set at a low level and hypothecated to defined purposes that clearly fall outside the normal remit of local authority expenditure.

— Any supplement should be subject to a vote by the businesses that would be called upon to pay it and require a “dual-key” majority for its implementation.

— The business rates system is already over-complex. It will be important to ensure that any supplement is simple to calculate and levy and that it adds as little as possible to the complexity of the system. The interaction with existing reliefs and supplements will also require careful consideration.

RICS VIEW

Supplementary Local Rate

We consider that the existing business rates system has major advantages to business of predictability and stability and that these advantages will be lost if a supplementary local rate is introduced. For these reasons we are opposed to its introduction. However, we understand that this is a recommendation of the Final Report of the Lyons Inquiry, and therefore comment on the recommendation accordingly.

The existing Uniform Business Rate (UBR) is set at a high level—44.1p in the pound (before supplements) for 2007–08. This is a high figure in comparison to other UK tax rates and in comparison to local property taxes in other European countries. The comparison with other rates of corporate property taxes in Europe is set out at paragraph 8.11 in the Final Report of the Lyons Inquiry (Lyons Report). A comparison with other countries outside Europe would show a similar pattern with only North America, throughout the rest of the world, levying corporate property taxes at anything close to the UK level.

This high level of tax does not suggest any sound economic reason for introducing a supplement. The Lyons Report records the concern of the business community at the high level of business taxation generally (8.23). Because of this we consider that there is likely to be little enthusiasm or support from the business community for a local supplementary rate.

The existing system bears heavily on businesses with a heavy utilisation of real property. Yet often these businesses are competing with “e-commerce” businesses that occupy little or no property and therefore do not contribute to the cost of local government. Proper consideration should be given to ensuring that the business contribution to the costs of funding local government comes from all businesses, not just those heavily reliant on property.

It is therefore likely that there will be resistance to what will be seen as a “new” tax burden on business. The best means of avoiding the charge of levying an additional impost on business, whilst still fulfilling Lyons’ recommendation (8.2) of a measure of local flexibility would be to allocate an element of existing UBR to be set within the control of local authorities with local authorities free to retain a yield up to that amount or to collect less than the full local element. If such an approach were to be adopted the UBR would be reduced to, say, 42.1p with each local authority free to levy a supplement of up to 2p. By this means local flexibility, and some local retention of income, could be reintroduced without adding to the overall burden on business of property taxes.

If, however, a supplement on existing UBR is to be introduced it will be important that any supplement is structured in such a way as to ensure its credibility and to avoid it being seen as simply an additional tax burden on businesses. The best means for doing this will be to ensure that any supplement is set at a low level and hypothecated to defined purposes that clearly fall outside the normal remit of local authority expenditure.

A major step in ensuring that any new supplement has credibility as a means “to raise revenues for new investment” (8.40) will be to ensure that revenues are hypothecated for defined purposes. In order to avoid the charge of paying a supplement to cover matters that should form part of normal local authority activity and expenditure it will be important that the hypothecated purposes are clearly identified and that they fall outside the normally anticipate remit of local authority expenditure eg infrastructure developments.

In this respect we consider that it would be beneficial for supplementary rate procedures to follow those adopted for Business Improvement Districts (BID’S) including the preparation of a business plan that includes performance measures and means of checking performance against those measures.
ISSUES TO BE CONSIDERED IN RESPECT OF LOCAL SUPPLEMENTARY POWERS (LYONS RECOMMENDATION 8.3)

The level of supplement

The level of supplement should bear in mind the already high level of local property taxes. If these are not to be reduced then we would recommend a maximum supplement of between 1 and 2p. This would represent approximately 5% of the existing level of UBR, which seems entirely sufficient as an initial level of local flexibility, bearing in mind the developmental approach advocated by Lyons.

We agree that all revenues of this nature should be retained locally.

Any supplement should be subject to a vote by the businesses that would be called upon to pay it and require a “dual-key” majority for its implementation. The “consultation” recommended by Lyons between local authorities and businesses used, nominally, to exist in the days (pre-1990) of local rate poundage’s but never carried any credibility. It is also impossible for major national businesses, which will pay the substantial majority of any supplementary local rate, to consult effectively with the number of authorities involved (either 150 or more than 380 depending upon the tiers involved).

We agree with the recommendation made by Lyons that supplements should be levied by unitary authorities and metropolitan districts and in London and areas with two-tier local government, at a single rate set through agreement between the relevant authorities.

Whether small business should be required to pay

Lyons also raises a question about flexibility over which sizes of business pay the levy. We consider that all business should pay any levy. There already exists a supplementary level of UBR for “large” businesses to pay for the costs of Small Business Rate Relief (SBRR) and a scheme of rate relief for small businesses (or, more exactly, for small hereditaments). To then determine that only certain classes of businesses should pay a further supplement would be discriminatory and in our view could undermine the credibility of any supplement. The only exception that would make to this would be to suggest a de minimis level of Rateable Value below which no supplement should be levied. This should be set at a very low level to avoid the charge set out above and should simply be designed to ensure that in no case was the amount of the levy less than the cost of collecting it.

Considerations for implementation issues

The business rates system is already over-complex. As well as the UBR there is a supplement to cover the costs of SBRR, a special supplement in the City of London, there are transitional adjustments and the potential of a further supplement to pay for the costs of these, there are a number of reliefs including SBRR and other reliefs for rural shops, charities, and community amateur sports clubs. Finally, in an increasing number of localities there are supplements to pay for the costs of Business Improvement Districts (BID’s). It will be important to ensure that any supplement is simple to calculate and levy and that it adds as little as possible to the complexity of the system.

The interaction with existing reliefs and supplements will also require careful consideration. We recommend that no supplement be levied on any property that is already the subject of a BID levy.

Practical problems

There are other practical problems, such as those relating to hereditaments that cover more than one Billing Authority area, such as cross-country pipelines and Central Rating List entries. Is it intended by Government that these should be subject to any supplementary rate? If not, why not? As the intimation of the recommendation in the Lyons Report is that different BA areas may adopt differing rates, it would be necessary to apportion equitably assessments across Billing Authority boundaries. If so, how will these be apportioned, and how will the apportionments be published? Will they be published in each Billing Authority Rating List (as in Scotland), or separately by VOA certification? Will ratepayers have rights of appeal against such apportionments? Where and how would such provisions be set out?

We have no objection to this response being made public. We would welcome the opportunity to expand upon any of the comments contained in this response. If you require any further clarification of items in this response please contact RICS.

Memorandum by the County Councils Network (CCN) (SBR 15)

The County Councils Network (CCN) is a Special Interest Group within the Local Government Association (LGA), with all 37 English Shire Counties in membership. The Network exists to promote the voice of our members within the LGA, and the values and interests of the English Counties. Together these authorities represent 48% of the population of England and provide services across 87% of its land area.
The CCN would like to thank the House of Commons Communities and Local Government Committee for giving them this opportunity to input into the examination of the case for Government to introduce a power for local authorities to levy a supplement on the business rate within their area.

The CCN would like to address the issues under the headings provided at the time of the announcement.

1. **The Rationale for Introduction of a Supplementary Business Rate**

   The CCN welcomed Sir Michael’s proposal in his final report that local authorities be permitted to introduce a supplementary business rate to be retained locally. The CCN believe that local authorities should be given the freedoms and flexibilities to invest in infrastructure to promote economic growth. This is something both businesses and local authorities have called for. Locally focused funding would be able to draw on the specific knowledge and details of the needs within that area, something which is impossible at a national level.

   If predictable and reliable over a number of years, this new income stream will produce a guaranteed income resource. This will enable Local Authorities to make better use of their prudential borrowing powers and put ambitious projects into action, which if successful would in turn contribute to the area’s economic prosperity.

   The CCN would however like assurances that this potential income stream will not influence the allocation of grant funding for housing, economic development and transport.

2. **Accountability and Approval Mechanisms for the Introduction of a Supplementary Business Rate at a Local Level—the Role of Business and the Wider Community**

   The CCN believe that any mechanism for supplementary business rate must be transparent, simple and easy to administer. Local Authorities must be encouraged to develop these systems in partnership with the local business community; a concept also recommended by the Lyons Inquiry.

   In the short term a supplement on business rates would increase the cost of property occupation and may result in potential reductions in the capital value of property. In the longer term, business rates are likely to be passed on to owners in lower rentals and could lead to a reduction in rateable values. This in turn could lead to an increase in the national tax rate in order to raise the same amount of revenue nationally. The CCN would request full exemplifications of the potential impact of this to ensure that the introduction of a supplementary business rate would be beneficial overall and that any additional income would be material.

   However the opportunity to expand the tax base and improve dialogue with business is welcome. We believe that active engagement between local authorities and businesses in economic growth and development projects can only be beneficial.

3. **Consideration of Implementation Issues, Including the Impact on Local Authority Tax Bills and Decision-making in Two-tier Local Authority Areas**

   The introduction of the locally collected and distributed SBR must be clearly differentiated from the locally collected but nationally distributed NNDR. Any ringfencing restrictions must also be clearly detailed to taxpayers. The CCN believe these restrictions should be set locally to meet local needs.

   It has been proposed that upper tier authorities set the supplementary levy. However, we feel it should be linked to wider stakeholder governance arrangements for long-term strategy.

   Nevertheless the agreement of the levy would assist in ensuring the revenues raised meet the overall needs of the area as well as allowing for careful assessment that the one rate set for the County would not adversely impact on individual Districts.

4. **The Impact of a Supplementary Business Rate on Equalisation**

   Under a wholly localised business rates system Central Government would need to reallocate approximately 70 authorities’ local tax revenues to other authorities in order to maintain current levels of equity. This would not provide any incentives for growth as the taxes raised locally would not resource the locality nor would it help build relationships between businesses and local authorities. To avoid this, a levied supplementary business rate should be ringfenced from Formula Grant distribution of NNDR and RSG.

5. **The Appropriate Scale of the Supplement**

   In his report Sir Michael Lyons suggests that authorities hold some flexibility over deciding which size of business should pay the levy. The CCN would support this local retention of flexibility, which allows for local negotiations regarding the precise structure of contributions.
6. THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

Whilst the CCN regard small business protection as a necessity, LABGI, BIDS etc are all aimed at promoting business growth. Therefore levying a supplementary rate must be carefully assessed to ensure there is no negative impact and larger businesses do not feel that they are unfairly and effectively subsidising smaller businesses.

A discount or exemption for smaller businesses is unlikely to substantially reduce the overall yield for the supplement although it’s precise design may vary according to the nature of proposed projects SBR is expected to fund. This should be managed at a local level taking into account local economic conditions.

Memorandum by the Chief Economic Development Officers Society (CEDOS) (SBR 16)

INTRODUCTION

1. The Chief Economic Development Officers Society (CEDOS) provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils in non-metropolitan areas, which together represent over 47% of the population of England and provide services across over 84% of its land area. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

2. The availability of finance to promote and improve local economies is a key issue for local authorities and CEDOS welcomes the opportunity to put forward its views to assist the Select Committee in its inquiry into local government finance: supplementary business rate.

CEDOS—OUR OVERALL POSITION

3. Sir Michael Lyons in his inquiry into local government has emphasised the importance of the local authority place-shaping role, a key part of which is working to make local economies more successful. He has drawn attention to recent work comparing the UK with the USA and Europe, which concluded that the lack of devolution and local discretion in the UK is a constraint on economic performance. Sir Michael believes local government’s ability to fully perform its place-shaping role is limited by:

— the weight of central controls, both formal and informal, which can lead to local choices being crowded out and can stifle innovation and experiment;
— a lack of flexibility over existing resources, with a large proportion of local government funds coming from specific grants; and
— a high degree of dependence on central funding with limited flexibility to raise additional resources.

4. CEDOS shares these views and believes that pressure on resources is a significant barrier, which constrains the efforts of local authorities to make their economies more successful. The pressure on local government spending particularly affects non-statutory services like economic development. In this context, CEDOS has welcomed the Government’s introduction of the Local Authority Business Growth Incentives Scheme [LABGI] but believes that it needs further developing to provide greater certainty of funding and a stronger prescription for its use for economic development and regeneration purposes.

5. CEDOS believes there is a need to do more than this. A step change is needed to provide a sound basis for effective local authority economic place-shaping. The financial link between business growth and investment needs to be fully restored to enable local authorities to retain income derived from business rates linked to:

— the introduction of a new statutory duty of local authorities to promote or improve the economic well being of their areas [in place of the power to do so given by the Local Government Act 2000]; and
— strengthening Comprehensive Performance Assessment to give more emphasis to the economic promotion activities of Councils and their approach to joined up working on behalf of their local economies.

6. We recognise that there are issues around the relocalisation of business rates that will need addressing, primarily concerning the equalisation issue. As Sir Michael Lyons has pointed out, following the decision to move schools funding into a separate ring-fenced grant, business rates now provide the bulk of the revenues needed to equalise between authorities for differences in needs and council tax resources. If business rates were to be localised without an equalisation component then unless equalization were to be achieved in a different way, some local authorities would be worse off. On the other hand, if business rate
localization is pursued with an equalisation component, it would result in businesses in many areas paying taxes to their local authority that would seem to be local revenues, but would in fact be reallocated elsewhere in the country.\textsuperscript{13}

7. Despite this, it ought to be possible for business rates to be fully localized with a focus on their use to support economic place-shaping, with the overall equalization process achieved by other means within the local government funding system.

8. In the report of his inquiry into local government, Sir Michael Lyons, whilst having sympathy with the relocation of business rates, has decided not to support this at the present time. Instead, he proposes the introduction of a power for local authorities to levy a local supplementary business rate to increase local flexibility and support continued investment in infrastructure.

9. Whilst a new supplementary business rate power could potentially provide a boost to localism, CEDOS is sceptical about its scope for being really effective in assisting local economic place-shaping because:

   — there is likely to be a good deal of opposition from local businesses to an additional business rate being introduced, which could be counter-productive for developing and maintaining good working relationships between local authorities and their business communities;
   — in most areas it would not generate enough resources to provide a sufficient stimulus for effective investment in infrastructure or other economic development activities;
   — there is a fundamental contradiction between its effectiveness on the one hand and its fairness on the other; and
   — there would be likely to be considerable complexities in its administration.

10. Because of these concerns, which are referred to in more detail below in relation to the particular issues being considered by the Select Committee, CEDOS believes that there would be very little prospect of a new supplementary business rate power making any real difference nor of many authorities having the political will make use of it.

11. In this context, and acknowledging that re-localising business rates linked to a new statutory duty to promote economic well-being is unlikely to be achievable in the short-term, the best way forward in the immediate future is to develop and strengthen LABGI to:

   — do more to encourage the use of LABGI rewards to provide an additional impetus for local authority economic development activity and probably to ring-fence its use for economic development purposes;
   — make the funding easier to estimate;
   — provide for greater certainty of funding over the longer term and ensure announcements on amounts for any one year come early enough in the local authority budgetary cycle to make a difference to spending decisions; and
   — increase its effectiveness in 2-tier areas by reducing the present skewing of rewards in favour of District Councils.

12. Even if a supplementary business rate is introduced and/or there are moves towards re-localisation of business rates generally, CEDOS believes that an improved and strengthened LABGI should be retained as an important incentive to local authorities to support the promotion and improvement of their local economies.

**The Rationale for Introduction of a Supplementary Business Rate**

13. The rationale given by Sir Michael Lyons for introducing a new power for local authorities to levy a local supplement is “to increase local flexibility and support the continued investment in infrastructure that both businesses and local authorities have called for”. In our view, this rationale is undermined by:

   — likely opposition from the business community, which could jeopardise relationships and partnership arrangements that have been built up between local authorities and their business communities and the joint working that is essential to achieving economic prosperity;
   — a limited prospect of many local authorities having the political will to take up the new power, not least because of the adverse reaction of local businesses; and
   — the limited ability of many areas with an insufficiently large initial tax base, to raise enough resources to support the sort of significant infrastructure investments that Sir Michael Lyons envisages a supplementary business rate being used for.\textsuperscript{14}

\textsuperscript{13} Sir Michael Lyons has calculated that to maintain current levels of equity under a localised business rates system, 65 authorities would need to pay some of their local tax revenues to central government to support other authorities with smaller tax bases and higher needs.

\textsuperscript{14} For example, in Devon, where the rateable value exceeds £430 million, it would take the proceeds of a 1p supplementary tax for the whole county for ten years to meet the gross cost of just one major bypass scheme, even when supplemented with funding from other sources.
ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS AND THE WIDER COMMUNITY

14. If a local supplementary business rate is introduced, it will be essential for it to be operated in a way that is transparent, simple and as easy as possible to administer. It will be important to build in a process not only for effective and meaningful consultation with businesses but also to give the local business community a strong voice in the decision making process in the context of wider community involvement. For this, a link to Local Strategic Partnership arrangements, which usually include local business representation, could help to minimise bureaucracy and provide the necessary long-term strategic context.

15. A potential governance framework for a local supplementary business rate ought to be Local Area Agreements but with a three year timescale and too much of their focus being on priorities determined by central Government, they are unsuitable in their current form.

16. Whatever governance arrangements are decided upon, the interaction between an overall supplementary business rate and local Business Improvement District schemes [BIDS] will need to be assessed carefully. Businesses will resist the potential imposition of two supplementary local taxes for different purposes and there would need to be safeguards regarding the cumulative impact of both supplementary business rates and BIDS on non-domestic ratepayers.

17. There are circumstances where infrastructure requirements will need to be addressed at a scale wider than that covered by either existing Local Strategic Partnerships or Local Area Agreements. In this context, the concept of Multi-Area Agreements [MAAs] could prove useful, although we will need to wait to see how this develops and what local/sub-regional freedoms and flexibilities are involved when Government’s detailed thinking on MAAs emerges from its review of sub-national economic development and regeneration.

CONSIDERATION OF IMPLEMENTATION ISSUES, INCLUDING THE IMPACT ON LOCAL AUTHORITY TAX BILLS AND DECISION-MAKING IN TWO-TIER LOCAL AUTHORITY AREAS

18. The proposal is for upper tier authorities to set the supplementary business rate. Although the Lyons report claims that this will provide for a less complex system for businesses by reducing the number of possible different rates to 150, this still illustrates its complexity. Moreover, in two-tier areas, the complexity is added to by the need for proposals to be the subject of discussion and agreement between county and district councils, with a joint plan for the use of the revenues raised. If a supplementary business rate is introduced, this will be an important area for action in those parts of England pursuing enhanced two-tier arrangements.

THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

19. The introduction of a supplementary business rate will have an effect on equalisation. As the Lyons report has shown, the power to levy a supplement would not be equally valuable in all areas and the revenues that individual areas could raise would vary substantially. However, Sir Michael concludes that all the revenues should remain local on the basis that to do otherwise would constrain the ability of local authorities and businesses to decide how to use the additional resources they had chosen to raise, and reduce the accountability of local authorities for the use of locally raised money.

20. There is no doubt that putting in place special equalisation arrangements would limit the incentives for promoting economic development and not help the relationships between businesses and local authorities in the significant number of areas where the additional taxes raised locally would as a result be reallocated elsewhere in the country. On the other hand, the fact is that the revenues individual areas could raise would vary substantially depending on the size of the area and the number and value of properties in the area, reflecting variations in economic geography and relative prosperity. This would lead to inequality in its impact if all the money raised were to be retained locally. It is this fundamental contradiction between effectiveness and fairness that is a key factor, which limits the appeal of the power to levy a supplement proposed by the Lyons report.

THE APPROPRIATE SCALE OF THE SUPPLEMENT

21. The Lyons report gives figures of the revenue that would be raised in unitary and upper tier authorities by a 1p supplement on business rates. As the amounts vary from authority to authority, there is no right answer to the issue of appropriate scale. It will depend on the local circumstances—on the economic development needs of the area in comparison to the yield produced by a given rate level. However, although a supplement as high as 4p has been levied in some BIDS areas, given the likely opposition of the business community to a general power to levy a supplementary business rate, a supplement of more than 1p seems unlikely to be practical.
THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

22. Small businesses pay a higher proportion of their turnover in rates than larger businesses and to reflect this, the Government has recently introduced Small Business Rate Relief to reduce bills for small businesses. It would be essential to extend this protection to small businesses if a supplementary business rate is introduced not only in the interests of the small businesses themselves but also in the interests of areas that have large numbers of very small businesses. A supplementary rate without small business relief could be destabilising because of the high impact that an increase in marginal costs can have on such businesses.

23. On the other hand, the extent of the relief in terms of discount or exemption would have to be judged carefully in terms of:
— the impact on revenue in areas with a relatively small number of large businesses;
— the degree of unfairness likely to be felt by larger businesses for effectively having to subsidise smaller businesses, simply on account of their size;
— the nature of proposed projects which a supplementary rate is intended to fund; and
— the ability to engage the small business community in the consultation and decision making processes.

24. This further illustrates the complexity that would be involved in local decision-making and administration, if a supplementary business rate were to be introduced.

Memorandum by the Centre for Cities (SBR 17)

SUMMARY

The Centre for Cities strongly supports Sir Michael Lyons’ endorsement of Supplementary Business Rates (SBRs)—which we first proposed in our City Leadership report in February 2006. SBRs will help England’s cities and city-regions to deliver much-needed investment in local transport infrastructure. City leaders, business and ministers must now reach agreement on how SBRs can be taken forward to unlock transport investment and enable growth.

CENTRE FOR CITIES

1. The Centre for Cities is an independent urban policy unit, based at the Institute for Public Policy Research (ippr). It is taking a fresh look at how cities function, focusing on the economic drivers behind urban growth and change. After a successful incubation phase, the Centre will ‘spin off’ from ippr at the end of 2007.

2. Dermot Finch is Director of the Centre—he was previously a senior policy adviser at HM Treasury (1994-2005). Tom Bloxham MBE (Chairman, Urban Splash Ltd) is Chair of the Centre’s Steering Group. Lord Sainsbury of Turville is the principal funder of the Centre. The Centre’s website is www.ippr.org/centreforcities.

3. The Centre has a strong track record on city governance and finance issues. Our City Leadership report—which will be discussed in more detail below—called for the introduction of Supplementary Business Rates (SBRs) in February 2006. Our current City Transport work, which examines the role played by transport in urban economic growth, looks at the role of transport in local economic growth, has further demonstrated the case for SBRs in England’s cities.

4. Together with the British Property Federation, the Centre provides the Secretariat for the All-Party Urban Development Group (APUDG). The APUDG is chaired by Clive Betts MP; other officers include the Rt Hon Nick Raynsford MP, Lord Richard Best, Andrew Pelling MP and Baroness Scott of Needham Market.

ABOUT THIS SUBMISSION

5. Our response to the CLG Committee’s inquiry is based on:
— Research findings from our City Leadership report (published February 2006);
— On-going City Transport work, particularly with regard to the governance and finance of local transport; and
— The first inquiry of the All-Party Urban Development Group, where MPs and Peers called for greater local financial autonomy to address transport needs.

6. Findings from these projects are directly relevant to the Committee’s inquiry questions, particularly the rationale for the introduction of an SBR; the appropriate scale of a supplement; and accountability mechanisms.
7. As strong supporters of SBR, we will conclude by setting out what we believe to be the key challenges that still need to be addressed—by city leaders, business, Ministers, and MPs—before SBRs can be used as a tool to support local economic growth.

RESEARCH FINDINGS

City Leadership

8. The Centre’s City Leadership report recommended the introduction of Supplementary Business Rate (SBR) powers for major city-regions—starting with Greater Manchester and Greater Birmingham. These proposals subsequently influenced Sir Michael Lyons’ analysis and recommendations (see paragraph 13 for more).

9. Our research found that a 2p SBR (approximately a 4.7% rate “top up”) would have raised approximately £35 million per year in both Greater Manchester (11 authorities) and Greater Birmingham (13 authorities) between 2000–01 and 2004–05. In calculating these sums, we applied the same small business reliefs currently operating in the National Non-Domestic Rates system.

10. Thanks to the stability of NNDR as a revenue source, this 2p “top-up” could realistically be used to underpin borrowing for one major infrastructure project in a city-region. However, since the total revenue raised would be relatively small (as compared to the scale of infrastructure needs), a city-region would need to prioritise SBR receipts extremely carefully. A 2p SBR could part-finance one high-profile project in each city-region, such as the redevelopment of Birmingham New Street Station or the expansion of Manchester’s Metrolink system. In City Leadership, we recommended that revenues from the SBR be ring-fenced to improvements in transport—a top priority for local business leaders across the country, and particularly in England’s regional cities.

11. Our report also recommended that a directly-elected city-region mayor be ultimately accountable for the decision to use SBRs to fund local transport improvements. While we still believe that elected mayors would provide the best accountability mechanism for SBRs, we recognise that there is no groundswell of support for city-regional mayors outside London at the present time.

12. It is possible that city-region “Executive Boards”—the model that most city-regions are presently taking forward—could also be empowered to use SBRs, although specific guarantees would be required to ensure that the resulting revenues are focused on a small number of transport priorities—rather than jammed across constituent authorities for political reasons. Executive Boards may also provide a route for greater business involvement in the SBR process, as a number of city-regions are considering how to co-opt one or more business representatives on to their Boards.

Centre for Cities reaction to the Lyons Inquiry

13. Sir Michael Lyons' final report endorsed SBRs, recommending that local authorities across England gain the freedom to impose SBRs of up to 4p in the pound (approximately 10% on business rates). The Centre for Cities welcomed Sir Michael’s proposals on SBR—and were pleased by the positive reaction from a range of government departments, including the Treasury.

14. Using the Lyons Inquiry’s proprietary data, the Centre for Cities completed some speedy calculations to understand what a 2p SBR—rather than the 1p and 4p modelled by the Lyons Report—could deliver in England’s biggest regional cities. We found that:

— Birmingham: A 2p business rate ‘top up’ in Birmingham City would yield £15.4 million per year—which would support a 10-year loan of £118 million. This would eliminate the funding gap for the New Street Station redevelopment—which currently stands at £114 million.

— Manchester: A 2p business rate “top up” across Greater Manchester (10 authorities) would yield £40.6 million per year—and support a 10-year loan of £310 million. This comes close to covering the local share of Metrolink Phase III (£380 million—on top of £520 from DfT).

— Leeds: A 2p business rate “top up” in the Leeds City Council area would fund nearly 40% of the cost of the proposed Bus Rapid Transit network—the successor to the cancelled Leeds Supertram.

15. These examples show that SBR could have a significant, positive impact on urban infrastructure. At the same time, however, they make it clear that SBR is not a panacea, nor a simple answer to cities’ investment needs.

City Transport

16. Our Connecting Cities report, based on seminars held in Newcastle, Birmingham, Liverpool, Bristol and Reading, found unanimous agreement in regional cities on the need for new financial tools to invest in local transport infrastructure.

17. While local authorities almost unanimously supported SBRs, we found a mixture of opinion among business stakeholders. At national level, the Confederation of British Industry and the British Chambers of Commerce expressed strong reservations about SBR. However, local Chambers in cities with clear infrastructure needs—eg Manchester, London—were more positive.
Box 1: Business views on SBR

<table>
<thead>
<tr>
<th>Business reservations on SBR include:</th>
<th>Business support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of a business vote/potential for imposition by local authorities;</td>
<td>— Early consultation and involvement;</td>
</tr>
<tr>
<td>Additional business tax burden;</td>
<td>— Clear objectives: infrastructure required for economic growth;</td>
</tr>
<tr>
<td>Cumulative impact of SBR and road-user charging schemes on firms;</td>
<td>— Hypothecation to transport;</td>
</tr>
<tr>
<td>Scale and scope of SBR—including length of time, geographic coverage;</td>
<td>— Good business-local government relationships, eg Manchester;</td>
</tr>
<tr>
<td>Lack of trust in local authorities without revenue hypothecation.</td>
<td>— Areas with a major local transport scheme requiring investment, eg Crossrail, New Street Station.</td>
</tr>
</tbody>
</table>

18. While interest in SBRs was highest in large cities like Manchester, Birmingham and Leeds, some concerns were expressed in less-dynamic urban areas. Stakeholders in Newcastle and Liverpool worried that SBRs could serve as a disincentive for foot-loose businesses, which might instead opt to locate in areas which are not subject to an SBR. However, there was a strong sense that any decision on SBRs, whether in favour or against, should be taken locally.

All-Party Urban Development Group

19. The APUDG’s first report—Loosening the Leash (February 2007)—backed Supplementary Business Rates as part of a wider tool-kit for local authorities to invest in transport infrastructure. It noted that “no single instrument, developed in isolation, will be enough to overcome the infrastructure funding gap in Britain’s cities. A ‘tool-box’ of new infrastructure funding mechanisms is required at city level” (p 20).

20. In the report, MPs and Peers recommended the introduction of SBRs as part of that wider “tool-box”—noting that they are simple, clear, easily ring-fenced, stable enough to underpin borrowing, and a pragmatic way to unlock greater private-sector investment in Britain’s cities and towns.

Specific Issues Raised by the Committee

Rationale for the SBR

21. In recent months, Government has acknowledged that big urban areas are the “building blocks” of the English economy. Major departments—including DCLG, DfT and the Treasury—have been working on sub-regional or city-regional arrangements to ensure that economic development and transport functions are delivered at the scale closest to that of “real local economies”.

22. Our research has repeatedly found that England’s cities need greater financial devolution and flexibility to fund more transport projects themselves, rather than depend entirely on central government funding streams with conditions attached. Regional cities have also told us that without greater financial devolution, many key transport projects designed to underpin local economic growth will not be able to proceed.

23. The House of Commons Transport Committee, in its recent inquiry on Local Transport Planning and Funding (2006), concluded that “far too much time and money are wasted preparing schemes which are never approved for funding.” We agree. SBRs—along with other devolved financial tools—would enable local transport authorities to fund key transport projects, support economic growth objectives, and deliver service improvements without constant recourse to Whitehall departments.

Accountability and approval mechanisms

24. Business accountability: Our previous research has recommended that SBR powers rest with elected local government. However, we have recommended that funding be hypothecated to transport projects following robust consultation with the local business community. We have argued that this formula ensures a degree of accountability, while concentrating the final decision-making power with democratically elected local leaders.

25. Many business leaders, while supportive of the overall concept, argue that SBRs should only proceed on the basis of a business vote. Others, including Sir Michael Lyons, have argued strongly against a business vote. Lyons recently called the idea “iniquitous” and questioned why businesses should be able to throw out carefully-crafted SBR proposals (LGC, 31 May 2007). His report favoured extensive business consultation and participation in the SBR design process, rather than a business vote on the issue.

Box 2: For and Against a Business Vote on SBR

<table>
<thead>
<tr>
<th>Arguments for:</th>
<th>Arguments against:</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Pragmatism: business support is needed for SBR legislation to pass, and a vote could secure this.</td>
<td>— Principle: a vote would undermine the integrity of the tax system, and open all new tax decisions to referenda.</td>
</tr>
<tr>
<td>— Fiscal discipline: a “check” on local taxation and expenditure plans.</td>
<td>— Democracy: only elected officials should have the power to impose or remove a tax, central or local.</td>
</tr>
<tr>
<td>— Accountability: since SBR is an extra tax on business, business requires democratic vote.</td>
<td>— Consultation: business involvement in SBR priority-setting, design sufficient.</td>
</tr>
<tr>
<td>— Certainty: guarantee SBR purpose, time limits, geographical scope.</td>
<td>— Hypothecation: ring-fencing SBR to transport infrastructure projects is adequate guarantee.</td>
</tr>
</tbody>
</table>

26. As Box 2 above shows, this issue is not clear-cut. The need to ensure business accountability and buy-in must not be minimised. The Centre strongly believes that key stakeholders must convene and reach agreement on how, not whether, SBRs should be administered and approved. To that end, we are currently working to build consensus between business and cities on this issue—by convening a high-level event in July 2007, which will include top business and local leaders.

27. Given this on-going work, it is not appropriate for the Centre to express a firm view on accountability mechanisms at this point in time. However, we would point out that there are many accountability options available for SBR. These range from ministerial reserve powers to ‘strike down’ a local SBR proposal that does not have business buy-in, through to the formal vote supported by national business organisations such as the CBI and the British Chambers.

28. Business vote options range from an unweighted, universal franchise (“one business one vote”), through to the voting model put in place for Business Improvement Districts by the 2003 Local Government Act.

Box 3: Business Improvement District Voting Rules

In order for a BID to be approved, two tests need to be met:

(a) a majority of those businesses voting (not all the businesses in the area) must vote yes, and
(b) those voting in favour must represent a majority of the rateable value of all businesses voting.

BIDs were brought in with the 2003 Local Government Act. The precise wording—which is in section 50—is as follows:

Approval in ballot

1. BID proposals are not to be regarded as approved by a ballot held for the purposes of section 49(1) unless two conditions are satisfied.
2. The first condition is that a majority of the persons voting in the ballot have voted in favour of the BID proposals.
3. The second condition is that A exceeds B.
4. A is the aggregate of the rateable values of each hereditament in respect of which a person voting in the ballot has voted in favour of the BID proposals.
5. B is the aggregate of the rateable values of each hereditament in respect of which a person voting in the ballot has voted against the BID proposals.
6. For the purposes of subsections (4) and (5), the rateable value of a hereditament is that shown on the day of the ballot.


29. Whether the BID model is the correct model for an SBR vote is open for debate. For example, BID voting rules potentially allow a minority of businesses to impose a supplementary levy on all businesses within a defined area. The potential impacts of such a system must be considered in more detail.
Scale of SBRs

30. Geography: the Centre has repeatedly argued that the city-regional scale—the functional economic area—is the best level at which to plan and execute strategic investment, including transport. Accordingly, we believe that SBRs should be introduced at city-regional/sub-regional level, and pooled by the constituent authorities to ensure maximum borrowing leverage.

31. Additionally, tying SBRs to the city-regional or sub-regional level would ensure that revenues collected are of a sufficient magnitude to underpin a substantial, visible infrastructure investment. With a few high-profile exceptions (eg Birmingham, Leeds), individual local authorities do not have a large enough tax base to generate significant SBR revenues on their own.

32. However, we recognise that a city-regional SBR could be politically difficult in some areas. It may be necessary to “build out” from the centre, with Core City local authorities taking the lead, and other authorities coming on board later. While pragmatic, this approach could lead to free-rider problems, with outlying authorities enjoying the benefits of SBR investment without contributing to the costs. For this reason, coalitions of local authorities, rather than individual councils, are best placed to take SBR forward.

33. Cities and city-regions must also have substantial flexibility regarding the time-frame of an SBR. For some infrastructure projects, a short, time-limited SBR will suffice; for others, a medium-to-long term revenue stream (eg 10–30 years) will be required. The Government must not be overly prescriptive on this issue, and allow cities/city-regions to develop innovative SBR proposals, so long as they are consistent with existing fiscal rules.

Box 4: Revenue Raised from a 2p SBR

<table>
<thead>
<tr>
<th>SBR coverage area</th>
<th>SBR revenue per annum (2p supplement)</th>
<th>10-year loan from PWLB</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Newcastle</td>
<td>£6 million</td>
<td>£45.9 million</td>
</tr>
<tr>
<td>City of Manchester</td>
<td>£12 million</td>
<td>£91.8 million</td>
</tr>
<tr>
<td>Tyne and Wear (5 authorities)</td>
<td>£17 million</td>
<td>£130 million</td>
</tr>
<tr>
<td>Greater Manchester (10 authorities)</td>
<td>£40.6 million</td>
<td>£310 million</td>
</tr>
</tbody>
</table>

Source: Centre for Cities calculations based on Lyons Inquiry data.

34. Size of SBR: In order to ensure business buy-in, the Centre believes that enabling legislation for SBRs should include a clear upper limit for the supplement. Our previous research suggested an SBR of 2p (about 4.7%). Meanwhile, the Lyons Report more recently recommended an upper limit of 4p (nearly 10% on the business rates). A 4p rate may be unrealistic, given business concerns and potential impacts on the health of the local economy. We believe that cities should have the freedom to set SBRs that respond to local investment needs and circumstances. Over the coming months, we will work with city and business leaders to identify a sensible upper limit.

Impact on equalisation

35. The Centre has consistently argued that SBRs should be raised and retained locally—outside the equalisation system. Any form of equalisation measure would dampen the utility of SBRs as a revenue-raising tool, and would remove the in-built incentive for cities and city-regions to promote the growth of their respective business bases.

36. We recognise that an SBR might not be an appropriate revenue-raising mechanism in some areas—eg rural areas with low business property tax bases. In other areas, it might be politically contentious and hard to introduce. However, these issues must not be used as an argument against empowering local authorities to use SBRs. Given the fact that SBRs would not substantially affect the existing NNDR equalisation system, SBRs would not leave any area worse off in real terms—and would help to deliver transport improvements in big cities, where they are most critically needed.

37. The Government could choose to use specific grants (ie, outside of the RSG system) to support areas that are unable to levy an SBR. However, these grants must not be taken from the overall local government finance settlement—or they risk undermining SBR as an incentive to promote economic growth. For SBR to work, the Government must ensure that SBRs are truly additional, and that no authority experiences grant reduction because of the extra revenue raised.
38. In addition to receiving the benefits of an SBR, big cities / city-regions must be prepared to deal with the potential risks. In the long term, it is possible that SBR revenues will decline—either due to decreases in rateable value, or to economic downturn. Cities must ensure that they have sufficient contingency funds on hand to service any borrowing underpinned by SBR revenues.

Implementation issues

39. Two-tier areas: In our City Leadership work, we recommended that an SBR be levied across a Birmingham city-region composed of 13 authorities—7 MDCs and 6 neighbouring District Councils. While we recognise that there are difficulties associated with this, we do not believe that two-tier architecture should be seen as an obstacle to the use of SBR across functional economic areas (eg city-regions or sub-regions). We believe that district councils in such areas should be given the ability to “opt-in” to SBR arrangements—collecting the supplement and pooling it with other partners as part of a Multiple Area Agreement (MAA) or an agreed city-regional plan.

40. Thresholds: As noted in point 11 above, our City Leadership report argued that SBRs should be subject to the same rate reliefs and exemptions as the existing NNDR. Small businesses, especially in deprived areas, would receive substantial reliefs—ensuring that an SBR would not become a major new tax burden.

Memorandum by Warwickshire County Council (SBR 18)

1. WARRICKSHIRE COUNTY COUNCIL

1.1 Warwickshire is located in the West Midlands and has a population of over 534,000. It has a County Council and five District Councils. There is no single dominant town or city within the county boundary; instead there are seven main town centres (Nuneaton, Bedworth, Rugby, Warwick, Royal Leamington Spa, Kenilworth and Stratford Upon Avon with populations 26,000 to 100,000) along with a host of smaller market towns. WCC has a property portfolio comprising Industrial Estates, Business Parks and Managed Workspace, alongside private sector provision across the County.

Over the past 10 years WCC have taken a unique and proactive approach to Town Centres Regeneration and Business Improvement Districts. Initially it’s main role was to promote the concept of Town Centre Management (TCM) to the five Districts and the private sector. This has now evolved to the extent that Warwickshire is a national leader in TCM, with a dedicated team of “Town Champions” working with a broad range of partners on initiatives including BIDs, TCM, Masterplanning, Major Regeneration, Transport Strategy and Inward Investment Projects. As the Town Centres and BIDs Manager, I have a broad network of contacts ranging from local to overseas.

2. WARRICKSHIRE BIDS

2.1 WCC were selected to take part in the ODPM/ATCM National BID Pilot scheme as the only County Strategic Pilot—known as the Warwickshire and Rugby BID. The aim was to secure BID status in one of the County’s towns and to consider the potential for roll out to other locations in the medium and longer terms. BIDs were seen as supporting agendas of Sustainability, Livability, Quality of Life, Community Safety and Choice. Rugby is a small town with a low town centre rateable value of £15m, one of the key reasons it was selected by the County Council for the National BID Pilot scheme.

2.2 The Rugby BID secured BID status in October 2005 and has set a framework for the development of other local BIDs. It will generate some £5 million over the five year BID period and is now in it’s second year. It is important to say that this £5 million is purely funding raised through the BID from the business rate payers, mainly private sector businesses. It is a very high quality BID, tangible, adds value to existing services, has high levels of business support and is attracting study visits from across the UK and overseas. Since it’s introduction, sales have been up by 3.5% on the previous year, footfall by 1%, compared with national figures which are flat.

2.3 Since the pilot, WCC has developed a unique programme to help facilitate a structured programme of BIDs across the County, both in Town Centres and Industrial/Business locations. This is in the form of funding, staff support and expertise, a network of contacts, a feasibility and development process, and a BIDs learning network known as the Warwickshire BIDs Forum. WCC provides seedcorn funds of £120k per year for BID facilitation, which is leveraging the same amounts from both the public and private sector BID Partnerships and potentially could bring in some £12 million of new investment over the next five years. This is a good example of how County Council funds can facilitate, influence, lever public and private funds, develop commitment, help set policy and add value to partnership working, as well as gaining credibility.
3. **The Potential Impact of SBR on BIDs**

3.1 The introduction of a SBR would have a major negative impact on the business community both in Rugby and in developing and emerging Warwickshire BID areas. The prime reason that BIDs have been successful is the fact that they have been lead by business, are transparent, with funds going into specific agreed scheme, managed by the business community. Many of the businesses within current BID areas already view their BID levy as a SBR and will be extremely resistant to the Government raising another business tax, particularly so soon after BID legislation.

3.2 We have been successful in Rugby securing a mandate for a high 3.7% levy as a high quality BID was desired. The main thrust of securing that BID was that funds were going into a private sector pot for ringfenced projects, managed by business. The Business Plan was totally transparent and set out how the BID would be spent, monitored and managed. There is already huge concern in Rugby that SBR may happen and if it does it is unlikely that we would secure a BID mandate at the revote in 2010.

3.3 SBR would impact on developing Warwickshire BIDs as we would not secure commitment from business paying an additional levy when they are paying Business Rates already and SBR is looming. Businesses are generally sceptical about BIDs initially and think that BR go to the LA and that they should be delivering such services. That is why development costs are high. SBR introduction could potentially mean a loss of some £7m BID income in the next 3 years as phase one of Warwickshire BIDs.

4. **Accountability and Approval Mechanisms for the Introduction of an SBR at a Local Level—The Role of Business and the Wider Community**

4.1 The BIDs concept is successful as it puts business in control and support can only be gained where BID Partnerships provide clear and robust information on how the money will be spent and the impact assessed. Additional rates will not provide businesses with any sort of control or reassurance of effective or beneficial use of additional funds.

4.2 Robust partnership working, trust and excellent relationships are critical to BID development and experience shows that this takes time. Generally from promoting the concept of BIDs to actually arriving at Feasibility or Development takes some six months, partly because it is new but partly because the business community needs to be convinced that funds will be privately managed. It would be incredibly difficult to convince business that SBR monies going to LG would be well invested. Even if SBR did not go for a vote, a consultation strategy would have to be very well planned and managed to gain business support and indeed could be more costly than BID voting processes.

4.3 Relationships and levels of trust between business and public sectors will have a significant impact on how SBR is accounted, approved and implemented. Partnership working arrangements (both existing and proposed) will be key to involvement of the business community and potential champions for moving SBR forward. Evidence in Warwickshire TCM and BIDs shows that this takes time both in terms of establishing credible partnerships and developing trust and understanding between the various sectors.

5. **Consideration of Implementation Issues Including Decision-making in Two-tier Areas**

5.1 From the Lyons report, it seems that there are four options for the implementation of SBR:

Unitary and Metropolitan, London wide supplement, two tier LG with a single rate with the relevant authorities and a joint plan for use of revenues. It also states that powers to introduce BIDs should remain with Shire Districts and London Boroughs. There is no clarity about roles of County Authorities.

5.2 It is not clear if in two tier areas Lyons is suggesting a blanket charge to be agreed by County and the Districts within their boundary, or by separate agreements. If a blanket agreement, it would be difficult to reach agreement between County and Districts as to how these funds could be spent due to the differing politics, priorities, aspirations and make up of a town/location. It may be easier in principle if it were to be a separate agreement between the County and the Districts individually on a more tightly knit geographic basis to address more local issues. However, as previously stated it would be extremely difficult to convince business to pay an additional business rate to LG whether it be through consultation or voting.

5.3 In terms of funding medium to long term initiatives in two tier areas, consideration could be given for the use of LABGI funding, providing links with BIDs and joint working with levels of LG and business. If a BID secures a successful mandate for a 5 year period, an incentive for business to vote Yes could be a reward through LABGI funds for complimentary or longer term initiatives. For example, the Rugby BID brings in £5 million/five years for added value investment. LABGI funds could well support the longer term vision initiatives/major projects to help the longer term vitality of the town and reward business. This may in the longer term help secure support in principle for SBR.
5.4 In Warwickshire, WCC have taken a unique approach to BIDs facilitation and Town Centres Regeneration and we appear to be working already in the way that Lyons is proposing with respect to:

(i) Leading Communities and Places: Political and managerial Leadership; Visibility, personal networks and relationships with key partners, outward looking approach, energy and enthusiasm; Shared agendas; capacity to deliver, engages partners, builds alliances, facilitate, advocate, influence rather than dominate; and

(ii) Local Solutions to Public Service Challenges Innovative local solutions: focusing on sense of place, tailored to local needs, carefully judged risks; Commissioning Role; partnership working, bringing skills, experience from other sectors, change of emphasis from provider to advocate taking strategic views.

This approach could potentially be considered as an example for BIDs development for other Strategic Authorities working in two tier structures.

6. APPROPRIATE SCALE OF THE SUPPLEMENT/THRESHOLD FOR PAYMENT

6.1 It would be virtually impossible to introduce a SBR and BID at the same time, as well as business rates for reasons stated above.

6.2 The scale of BID charging mechanism depends on the location, particularly in smaller towns or industrial areas with low rateable values. In Warwickshire we are generally using the “Banding Mechanism” which seeks to bring in £1—3 million per location over a five year period, with exemptions generally for business with less than £5,000—£10,000 business rate and a cap on the upper limit. Generally, we have found that business don’t generally ask “what is the %” but “what will it cost my business”. Other charging mechanisms could be square footage, or acreage for industrial areas.

7. SUMMARY

7.1 Business would be very resistant to paying an additional SBR. BIDs are successful as they are business led, transparent through a very clear business plan and managed by the private sector with investment focused on local priorities. It is highly unlikely that business would put SBR funds into the “public purse” as they simply would not believe that their monies would be well spent. We recently had an unsuccessful ballot at one of the Warwickshire BIDs—Bayton Industrial Estate, one of key reasons being that an anti campaign came about during the ballot period, the BID was perceived to be a public sector led BID, businesses were already paying business rates and would not also fund the BID on this principle, even though 60% of the businesses would only be paying £1 per day.

7.2 The Rugby BID was contentious at the time of development due to the high levy (3.7%); one of the key reasons that it was successful was that it would deliver very high quality services that would be tangible and make a difference to their business and that the Rugby BID Company would manage the BID and not the LA. Again this was an issue during an anti campaign, which fortunately the BID Company were able to turn. Another factor was that there was already robust TCM partnership working arrangements in place and good relationships in place with key stakeholders. Rugby is now in its second year of implementation, market research and business feedback shows that it is successful, this would not happen if not business owned and managed.

7.3 Since Rugby BID implemented, decriminalisation of car parking has been enforced, this again was construed by business as ‘another tax’ and caused problems between the two sectors for some time.

7.4 Robust Partnership Working arrangements, relationships and trust will have a huge impact on the implementation of SBR, business doesn’t generally trust LA and consider that business rates are already going to them, not government.

7.5 County Authorities can, like Warwickshire, perform a strategic BIDs role providing leadership, joined up thinking, links other initiatives and longer term visions. BIDs helps generate substantial funding streams to support an improved economy, public realm, community safety and quality of life. For Counties to invest in the BIDs process has the potential to generate several £millions that simply would not exist without the BIDs opportunity, raise their own credibility and develop true partnerships with business and enhanced two tier working.

7.6 On a national level there are currently in the region of 45 BIDs established, working with some 20,000 businesses and securing in the region of £100 million purely from BID Levies. Voluntary contributions of about £50 million have been levered as a result of these BIDs, resulting in total new investment to date of about £150 million. Funding of this magnitude simply would not exist without BIDs and the involvement, commitment and ownership from the business community.
Memorandum by City of York Council (SBR 19)

Introduction

1. City of York Council is a unitary local authority situated in the county of North Yorkshire, with a resident population of 186,800. This organisation has been asked to provide a memorandum addressed to the Communities and Local Government Committee which addresses the proposal in the Lyons report for a supplementary business rate. A Chief Officer at the authority has also been asked to attend the meeting of the Committee on 19 June to provide oral evidence.

Executive Summary

2. City of York Council is broadly supportive of the proposal in the Lyons report for a Supplementary Business Rate. This memorandum considers how this proposal could be accommodated in the context of our current work to establish a Business Improvement District. It also provides details of York’s Business Pride Initiative. Detailed financial analysis which considers how much a Supplementary Business Rate in York could raise using different contribution rates is also included. We consider the projects/infrastructure that funding raised through this mechanism could support and provide our thoughts on who would pay the levy. Finally, consideration is given to billing and collection issues. Throughout this document advice is given as to how City of York Council believes this initiative could be most usefully introduced.

The Effect of Lyons’ Proposals on the City of York

Do we feel a Supplementary Business Rate is supported across the country?

3. We feel a Supplementary Business Rate across the country should be supported in principle provided that:

(i) It is administered locally giving clear local benefits for local businesses.
(ii) It is able to provide additional resources for new infrastructure investment or projects which assist business.
(iii) Decision-making, issues of process and at what stages if any a vote is required are transparent.
(iv) It is administered by a business-led body, perhaps along the lines of the newly created “Business Tax Partnership Management Team” that is already in place in York for a potential city centre BID. This is chaired by the private sector with local business ratepayers voting on the final decision to support a BID. There could also be scope to include the partnership within the LSP process overall, though the process for this would need to be discussed and agreed.
(v) The Government gives a clear indication of whether this is a voluntary scheme in which businesses vote for a proposal on whether a Supplementary Business Rate would be levied, or a compulsory scheme which also ensures full business participation in the decision-making process.
(vi) There should be the power to vary the business rate in certain parts of the council area. For example, the local authority may wish to reduce NNDR within a specific area in order to drive regeneration. Of course, the council would have to bear the cost of this. There could be a range of plus or minus 4p.

Impacts on a Possible Business Improvement District

4. Since York already has a BID process underway this could impact on the potential Supplementary Business Rate. Should the supplement not come into being then we feel that York should proceed with the BID that is currently being developed by York City Centre Partnership. Should the BID be approved it will be in place for five years from 2009 to 2014. If the supplementary business rate does come into being this is likely to be in 2010–11.

5. Should a BID be in place by 2010–011 transitional arrangements will need to be developed to ensure participating businesses are not subject to supplementary taxes. Should the Supplementary Business Rate be delayed, but is still implemented within the lifespan of the BID, then this principle still applies. The transitional arrangements should include the involvement of the BID board in administrating a Supplementary Business Rate to ensure that benefits/proposals consulted upon locally are delivered and to aid consistency and reduce conflict and confusion.

Relationship/Conflict Issues between Supplementary Business Rates and BIDs

6. Whilst we can see that the concept of a Supplementary Business Rate that enables a levy to be raised for investment in local infrastructure projects is a logical extension of the BIDs concept, the proposals as made, we believe, will almost certainly end BIDs in this country as they are currently constructed. The Supplementary Business Rate should be simpler and quicker to introduce.
7. Although the report states that the supplement should be local, additional, transparent, and agreed with the local community, we believe that the proposals as set out in the report are limited in at least two, if not three, of these areas.

8. Firstly, in terms of geographical area, local does not mean, and should not mean, co-terminus with local authority boundaries. BIDs have demonstrated, both in this country and in North America, that businesses that agree to pay an additional levy do so to see an improvement or initiative directly connected to their immediate environment. It is this that changes a BID contribution from a tax to an investment for a business. BIDs are focused in small geographic areas and the contributors can see local action and success—the proposed supplementary business rate may not offer that.

9. The greatest positive that has emerged from BIDs is the level of engagement with the business community in identifying what any levy would do and how it should be quantified. There is real business ownership and involvement and where this has not been done properly, the BID has been voted down. There is no doubt that businesses want to invest in the BID where a successful ballot has been held. Lyons’ proposals with the “local business community having a strong voice in the final decision . . .” are not the same as the current BID system. Approval without a vote is fundamentally different from the approach of a BID. However it is simpler to achieve, particularly as the BID process is greatly hampered by the fact that many businesses are not locally owned and require head office consideration and approval of how to vote in a BID ballot.

10. In order to achieve the level of transparency which Lyons advocates, we believe that in York we would use a development of the current City Centre Partnership, which is presently examining the potential for a BID. The distinction between such a body and the local authority is that the City Centre Partnership is independent and business-led. BIDs have to produce clear business plans, annual reports and face a re-ballot. Transparency is therefore an inherent characteristic of the BID process. We believe that a good level of transparency and ownership by local businesses will be required to help ensure the success of a Supplementary Business Rate. Critics believe that the supplementary business rate, though theoretically an extension of BIDs, fails its key tests and will be perceived as partial localisation of business rates. Although it should be said at this point that York would welcome partial localisation of business rates.

THE YORK BUSINESS PRIDE INITIATIVE

11. In November 2003, City of York Council launched a major campaign to involve local businesses in improving the city. Councillor Steve Galloway (Leader of the council) and Adam Sinclair (owner of local business Mulberry Hall) unveiled the “York Business Pride” initiative to some of city’s most prominent business leaders and appealed to them to get involved.

12. The project was the next phase of the Council’s “York Pride” initiative, which seeks to radically improve the city’s environment at street level.

13. Businesses were able to get involved in the scheme in five different ways, depending on the size of the firm and the level of commitment they felt able to offer.

14. The most basic level of involvement was York Street Pride. Local businesses were asked to nominate one member of staff to be responsible for calling the council’s 551551 helpline to report any “street level” problems in their area.

15. Local companies could become York Business Pride Patrons by making a financial contribution to the Business Pride Challenge Fund. The fund was managed by an independent charitable foundation and money was provided by both the business community and the council.

16. Businesses could also get involved by becoming a Business Pride Sponsor. Ideas for sponsorship include supporting one of the council’s street cleaning services, such as the gum-busting machine, or an annual awards ceremony.

17. Business leaders were able to put themselves forward as candidates for the York Business Pride Board, which developed and co-ordinated business initiatives across the city; or, at the most basic level, local companies could “commit to take pride in their premises” by keeping their shop or business clean and tidy. The initiative brought real improvements in the appearance and cleanliness of the city.

18. The Business Pride Initiative was created for a specific period of time and came to an end in April 2007. The initiative improved the general Street Scene in York with contributions going towards Christmas Lights, York in bloom, de-cluttering the street environment and gum busting.

How much could a Supplementary Business Rate raise in York?

19. The Lyons’ Report suggested a 1p levy would raise approximately £2.4 million per annum in York. Financial modelling in Annex 1 considers different scenarios for Supplementary Business Rates (1p/2p/3p/4p in the pound) in York and provides projected yield figures for each amount.
What projects/Infrastructure could the Supplementary Business Rate Support?

20. Lyons recommends that the revenues from a supplement should be hypothecated to the purposes agreed through consultation.

21. We need to ensure that supplements contribute to, rather than detract from, the local economy. We propose that authorities should be required to make an assessment of the impact of a supplement on the local economy and the potential economic benefits of the spending they propose to finance from the revenues generated.

22. It is likely that businesses will focus on infrastructure projects which will be of clear benefit to them. Given that any scheme is likely to be city-wide in scope, a range of projects are likely to emerge that will suit the aspirations of businesses wishing to invest in the city’s future.

23. At this stage potential projects might include contributions towards:
   (i) Transport improvements.
   (ii) Tourism—Visitor Information Centre.
   (iii) Architectural lighting projects.
   (iv) Street improvements (signing, street furniture).
   (v) Marketing.
   (vi) Training and skills development projects.
   (vii) IT and digital infrastructure improvements.
   (viii) Science City York related developments/infrastructure.
   (ix) Safety in the city.
   (x) Festivals and events development.
   (xi) Enhancement of the city’s retail offer.

Who will pay the Levy?

24. Lyons highlights that small businesses pay a higher proportion of turnover in rates than larger businesses, and reflecting this the Government has recently introduced Small Business Rate Relief to reduce bills for small businesses. There is therefore a question as to whether small businesses should receive any discount or exemption from a business rates supplement. The smallest 90% of properties only represent a little over 30% of rateable value, so a discount or exemption for smaller businesses would not in most places substantially reduce the yield from a supplement. On the other hand, it might well be considered unfair by larger businesses that they should effectively have to subsidise smaller businesses, simply on account of their size.

25. We believe that Central government should set the overall framework and how national exemptions and reliefs apply in relation to the supplement. In particular, it may wish to protect the smallest businesses through setting a threshold below which small businesses do not pay a supplement, or it may want to set tiered contribution rates based on the size of the business.

26. However, we believe it is important that there is flexibility to manage these issues at a local level. Local authorities and local businesses should be able to consider whether additional discounts or exemptions from a supplement are justified for small businesses, taking into account the purpose of the supplement and local economic conditions. A number of BIDs alter their levy depending on the size of the business involved. In addition to business size, there are also issues to be considered in terms of how a supplementary rate would apply to charities, community sports clubs, other rate relief recipients, empty properties etc.

Billing and Collection

27. The manner in which the supplementary rate is billed and collected will have administrative implications for billing authorities. For the purposes of billing the supplement could be set by means of a system parameter. This might take the form of an additional multiplier, in a similar way that authorities currently maintain two multipliers—the non-domestic multiplier and the small business non-domestic multiplier. Assuming that all properties within the billing area are liable to pay the supplement this would be a relatively straightforward matter. However, where the supplement is only levied on certain types of properties or for sub-districts this would require the authority to identify the relevant properties either by a program script (eg all properties within a rateable value range or all properties in a parish/work group).

28. Consideration also needs to be given as to whether or not the supplementary rate will be shown as an additional item on the existing rate demand notice. Whilst the production of a joint notice is administratively easier, and less costly, it does obscure the distinction between the national and local rate—the issue of transparency is highlighted in paragraph 8.45 of the Lyons Report.
29. More problematic than the billing issues are those of collection and the allocation of payments received from the customer. Where there is a single demand notice the customer would be expected to pay monthly installments based on the combined amount of the national and local rate. When a payment is received this will require the authority to internally allocate the payment between the two rates. If the customer pays in full this would be relatively simple. However, where the customer fails to make payment there needs to be a mechanism to determine how much national rate is outstanding and how much of the supplement remains unpaid. Ultimately this could impact on the authority’s ability to fund local schemes.

30. The solution taken by the City of York’s software supplier to the billing and collection of BIDs may offer an approach with regard to the supplementary rate. The authority is provided with an additional property and account database enabling it to issue separate demand notices. The BID levy is set by system parameter and only those properties that are in the BID area have records created in the additional database. This solution resolves the issue of the allocation of payments as the customer is expected to quote a separate payment reference number. The authority still has an additional overhead in that it needs to ensure that changes in the main business rates database are reflected in the supplementary database (e.g., changes in occupation, rateable value etc) although this can be done by means of interface programs between the two data sets.

31. Both the inclusive demand and separate demand options would require some software changes which are likely to be offered as chargeable items by software suppliers. These costs would need to be taken into account when setting the level of the supplementary rate.

32. It is important that billing authorities are given sufficient powers to enforce collection of the supplementary rate. We would seek to have similar powers in terms of the issuing of reminder notices and progression to the Magistrates court as contained in the Non-Domestic Rating (Collection & Enforcement) (Local List) Regulations 1989.

CITY OF YORK COUNCIL—EFFECT OF PROPOSED SUPPLEMENTARY RATE (LYONS ENQUIRY PROPOSALS)

Note: Date of extracted information is 31st March 2007

Gross Details

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Comparison with current 2006–07 Net Collectable: £71,595,776

Small Business

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Current Empty Exempt Properties

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Communities and Local Government Committee: Evidence

Rateable Number Value £

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Current 50% Empty Relief Cases

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Current Charities & Other Reliefs

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Memorandum by the Institute of Directors (SBR 20)

Thank you for giving the Institute of Directors (IoD) the opportunity to respond to the new inquiry on Local Government Finance: Supplementary Business Rates which was announced on 8 May 2007. This paper presents our response to your call for evidence. Issues surrounding Business Rates are of considerable interest to the United Kingdom business community in general and to the IoD in particular. We are therefore pleased to participate in the consultation and present our response for your consideration.

About the IoD

Founded by Royal Charter in 1903, the IoD is an independent, non-party political organisation of 55,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfill their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 92% of FTSE 100 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises, ranging from long-established businesses to start-up companies.

IoD Response: Key Points

In December 2006, the Institute of Directors compiled a tax policy comment (not printed) on the Business Rate system, which it was hoped would inform the proposals of the Lyons Inquiry’s report. The IoD paper noted the existing issues with the Business Rate system in the UK and concluded that of all the options available, business interests would be best served by retaining the existing system of Business Rates.

Instead of following the IoD’s advice, Sir Michael Lyons’ report proposed the introduction of a system of Supplementary Business Rates, which could be collected and retained by local authorities in order to deliver additional services for the business community.

The IoD believes that under a system of Supplementary Business Rates, local authority provision deemed to be of significant benefit to the business community will undesirably be used to justify increased contributions.

In essence, the introduction of a system of Supplementary Business Rates will lead to ghettoised local authority spending on areas of business concern; where before a larger community of business and residential citizens had responsibility for a broad range of social, economic and commercial revenue and subsequent spending.

The IoD asserts that such measures will be likely to lead to lower levels of spending on areas of business concern using non-business precepts. In other words, the introduction of Supplementary Business Rates will allow local authorities to free up council tax precepts for largely non-business use and utilise the proposed Supplementary Business Rate to fund the majority of services required by business.

Aside from the increased financial burden of such a move, the “ring-fencing” of revenues will contribute to a perception that business issues are distinct from wider societal concerns. Whilst being a clear fallacy, this is also an unwelcome fragmentation which will not improve citizen, business and local authority understanding and interaction.

Rather than offering local authorities greater revenue raising powers, the emphasis of Sir Michael Lyons’ report should have focussed on ensuring that spending is committed more efficiently. It is the case that throughout the country large sums of money are being wasted on elaborate and ill conceived schemes that, if scrutinized more rigorously at the outset, could save taxpayers significant sums of money.

If the Government insists on proceeding with Supplementary Business Rates, the IoD is insistent that such supplements should be governed by very tight thresholds for their application. In addition the IoD proposes that a mandatory vote should be required of local authorities prior to implementation as a means of ensuring that businesses are not dragged through a process of “fait accompli consultation”.

**SUMMARY**

— The proposal to introduce Supplementary Business Rates should be dropped on the basis of the financial and societal implications of such a move.
— However, if Supplementary Business Rates are introduced, the IoD calls for:
  — The imposition of very tight thresholds on the application of local authority supplements.
  — A requirement to conduct a formal vote amongst the local business community requiring a majority (in favour) before the introduction of such a supplement.

**Memorandum by Yorkshire & Humber Chambers of Commerce (SBR 21)**

**INTRODUCTION**

1.1 Chambers of Commerce in Yorkshire & Humber welcome the opportunity to provide a submission to the Committee on the proposals to establish a Supplementary Business Rate following the recommendation in the Lyons Review.

1.2 This response provides some collective thoughts from the Chambers in Yorkshire & Humber. The British Chambers of Commerce (BCC) are providing a national submission and individual Chambers may submit further views from their members locally, which reflects the importance of the SBR proposals.

**ABOUT YORKSHIRE & HUMBER CHAMBERS OF COMMERCE**

2.1 There are nine accredited and independent Chambers of Commerce in Yorkshire and Humber who collectively have 12,500 business members of all sizes, all sectors and in all places in the region. These businesses employ more than 500,000 people in the region.

2.2 Taken together the Chambers in the region are amongst the strongest in the country. They are the dominant “voice of local business” in the region with unrivalled policy and representation structures lobbying on key issues of concern to their local business communities. Chambers of Commerce are the leading business body at a local level across Yorkshire & Humber and their relationships with local authorities gives them a unique perspective on this issue.

**SUMMARY OF KEY POINTS**

The key points we raise in this submission can be summarised as follows:
— Chambers welcome the Lyons Review and recognise the vital role that local authorities have to play in developing economically strong towns and cities.
— In principle, we support the further devolution of appropriate powers and responsibilities to a local level for decisions in areas such as planning and transport. However, it should be recognised that there is currently no direct accountability of local councils to their business communities.

— We are therefore opposed to the introduction of a SBR along the lines proposed by Lyons which would introduce an additional tax, with no safeguards or direct role in the decision making process for local businesses. A scheme with limited business involvement would damage relationships between business and local authorities which would be a serious set back given the huge emphasis on partnership working at a local level.

— Chambers are already working closely with their business communities and local authorities in several places in the region to develop Business Improvement Districts. They approach them positively because BIDs are business led and must get enough support win a referendum. This democratic principle should be carried through if any SBR scheme was to be introduced.

— However, if a SBR system could be developed in such a way that it would provide the appropriate safeguards for business, then it may have the potential to contribute to local economic development and win the support of local businesses. This means that any scheme would need to:

— Ensure local businesses were central to both the development of an SBR project and crucially be a formal part of the decision making process preferably through a referendum.

— Ringfence all revenues raised by a SBR for the specific purposes developed and agreed by the business community in a referendum.

— Fund additional projects or services to what the local authority already provides and this should be clearly set out in any proposal put to a business vote. An SBR must not be used to replace any existing council services or replace any capital investments they would otherwise make.

— Projects should be clearly defined and time limited with possible extensions after three or five years following a further vote depending on the nature of the project.

— Local businesses would need to be convinced about the monitoring of any SBR project and the outcomes would need to be clearly demonstrated and communicated to those paying an additional levy.

— We recognise the need to invest more in projects which will stimulate business development in our localities, particularly in areas such as transport. SBR could have the potential to make a contribution to these projects, but only if it was introduced with the appropriate safeguards and could win the support of local business communities.

SUPPLEMENTARY BUSINESS RATES

Rationale for introducing a SBR

3.1 Chamber members want to see strong, effective and efficient local government and we welcome the fact that a number of local authorities in the region work positively and proactively with their local Chamber. However, performance in local government is inconsistent and too often fails to meet business needs in terms of local provision of transport, education, planning and civic leadership.

3.2 The way in which local government is financed, its powers and responsibilities and how it is accountable to local taxpayers (Council Tax and Business Rates) are vital. The overall purpose of the Lyons Review was therefore positive if its recommendations could drive up performance in local government.

3.3 Stronger local government would also open up the possibility for further devolution, either to individual local authorities or city-regions. In general terms, this is a process Chambers support to allow more important decisions to be taken locally and to reinvigorate the role of civic leadership and attract higher calibre councillors, including from the business community.

3.4 We were concerned during the Lyons Review that the thrust of the local government input worked on the assumption that businesses don’t contribute enough in business rates as local authority spending has risen, and the burden therefore falls on the local electorate. We reject this view. Businesses already pay huge amounts in business rates (circa £15 billion nationally per annum) and other taxes which are re-circulated back to local authorities from the Government grant. Irrespective of whether rates are set nationally or locally, the Lyons Review should not be used as a pretext to hike up revenue from business rates, particularly as there is no direct accountability back to the business community.

3.5 Our perspective on the context of the Review was that local authority spending has risen considerably in recent years and the “gearing effect” means Council Taxpayers have borne a disproportionately high burden. We believe local government must do more to keep its spending down and drive through efficiency savings. If Government is asking local authorities to do more necessitating increased spending, it should carry the burden not business rate payers.
Figure 1

EXTERNAL CONCERNS TO BUSINESSES IN YORKSHIRE AND HUMBER, 2003–07

Source: Yorkshire & Humber Chambers of Commerce Economic Review.

3.6 Figure 1 shows the relative levels of concern amongst businesses in the region about business rates and corporate taxation (interest rates are also included to provide a relative comparison). The graph shows that concern over business rates is relatively modest with an implied satisfaction of the current Uniform Business Rate system.

3.7 However it also shows that corporate taxation in general is a bigger concern and has been consistently higher than interest rates in recent years. The tax burden on businesses has increased overall (despite lower levels of corporation tax) and Government should avoid further increases, which is in effect what SBR would be, unless there are clear business benefits.

Business engagement and accountability

3.8 Local areas will not thrive without strong and vibrant business communities. There are some excellent examples in the region of local authorities and Chambers working very effectively together and this is to be supported and recognised. However, there are too many that engage poorly and there is no relationship of trust with local businesses. We fear the SBR process could damage relationships further in areas where local authorities are not committed to working with their business community.

3.9 Local authorities should be encouraged to engage much more effectively with businesses in terms of meaningful consultation, involvement and accountability in local policy making and on service delivery. This could include the further development of BIDs and LABGI etc and will become increasingly important as city-regions emerge.

3.10 In terms of implementation, one issue that would need to be considered would be for schemes which were either delivered or had benefits across more than one local authority area. Clearly this would be the case for many transport projects and it would add complication to the process both for developing and delivering a SBR scheme. If SBR was to be used for significant projects, it is likely that their scope would extend beyond a single local authority. This is a complication rather than a fundamental barrier to a business friendly SBR as greater cross boundary and city-regional working is vital if further powers and responsibilities are to be devolved.
3.11 With regards to equalisation, our view is that all revenues would be locally retained and ring-fenced which would mean the issue of equalisation would not apply.

3.12 If SBR was introduced in a manner in which projects were developed and supported by the business community, the issue of the scale of supplement is one where local discretion should apply, although a level of less than 4% would seem sensible. A flexible approach should therefore be taken, depending on the nature of the project. More important is the need to time limit any scheme with the possibility of extensions through further votes if an SBR scheme was proving to be successful in delivering business benefits.

CONCLUSIONS

4.1 Yorkshire & Humber Chambers of Commerce would not support the introduction of a SBR on the basis set out by the Lyons Review because it would be an additional business tax, with no genuine involvement of business in the decision making process and no commitment for SBR to be additional to existing council spending.

4.2 SBR introduced in this way would put at risk the excellent partnership working which has developed between some local authorities and their business communities, and would do huge damage in areas where these relationships are not currently strong.

4.3 Business would however be more open minded if a “business friendly” SBR offered the potential to take more decisions locally through the devolution of responsibilities on planning, transport and economic development with the opportunity to generate revenue locally to fund projects which would have major business benefits.

4.4 This means SBR could work if it involved business in scheme development for clearly defined projects such as transport and crucially gave them a vote as applies in BIDs. If SBR was accountable to business, ringfenced, additional to existing local authority activity and time limited than it could provide a mechanism to deliver schemes which would improve the local business environment and devolve more power and responsibility to a local level.

4.5 Without these safeguards, SBR would simply be an additional tax on business which would provide them with no direct benefits and could seriously damage relationships with local authorities. It would therefore be strongly opposed by Yorkshire & Humber Chambers of Commerce.

Memorandum by Manchester City Council (SBR 22)

1. INTRODUCTION

1.1 Manchester City Council welcomes this opportunity to respond to the Communities and Local Government Committee’s request for views on the idea of Government introducing a supplementary business rate.

1.2 The City Council believes that the Lyons Inquiry into Local Government has provided a comprehensive analysis of the role and functioning of local government, and in particular its central role and leadership of “place-making”. We welcome Lyons’ findings, such as the calls for central government to allow more local choice and greater local flexibility, particularly around governance and funding.

1.3 The idea of introducing a supplementary business rate is not, however, something we have pursued in our consultations with the local business community so far.

2. THE RECOMMENDATION

2.1 Lyons recommends that in the short-term, existing national arrangements for business rates should be retained, but a new local flexibility to set a supplement on the current national business rate should be introduced.

2.2 After considering the localisation of business rates, Lyons believes that a supplement would provide local authorities with a more limited flexibility to raise new investment, but it would also have a more limited impact on businesses.

3. THE MANCHESTER PERSPECTIVE

3.1 Manchester City Council firmly believes that the issue should not just be about additional funding for agreed local, shared and transformational priorities, but also the burden of that additional expenditure, and whether it is disproportionate or not. This is an issue in places such as Manchester and was not evaluated in the Lyons Inquiry. We would want to see clear evidence that a supplementary business rate would not negatively impact on the local business community and that the system could be made sufficiently flexible.
3.2 The Council’s Executive considered a report on the Lyons Inquiry on 30 May and discussed this issue. It was agreed that a supplementary business rate would not be appropriate for Manchester at this time and that the Council will continue to press the Government for more radical approaches to greater financial control, including the relocalisation of business rates.

3.3 We accept the need to build up confidence between local and central government and the business community, but we believe that this would not necessarily be achieved by levying an additional tax on business. Instead we believe that the Government should give more consideration to the issue of relocalising the existing business rate. This could be done in such a way that confidence and trust could be built between all parties for example by introducing a partial relocalisation initially and then increasing the proportion relocalised over the long-term.

3.4 We would want to see an approach to relocalisation that was based on incentives. Those areas delivering the most would see further and faster devolution of powers and resources. Incentivisation should become an increasingly important influence on reform, both in terms of accelerating the modernisation process of public services generally and where funding is concerned, in rewarding success and achievement.

3.5 Local authorities should be rewarded for taking an active and successful approach to growing their local economy. Therefore those areas that grow their economies should be allowed to retain a greater proportion of revenues generated by that growth. Greater responsibility should also be exercised by those authorities which perform, rather than hold them back while non-performing authorities improve. For example, local authorities which successfully tackle worklessness in their areas, should be allowed to exercise more influence on skills and employment service providers within their areas. The same could apply to health, transport, and other programmes.

3.6 Our support for the principle of relocalising the business rate is also based on the need for clear private sector support for local investment strategies to grow the business base. In examining any relocalisation strategy, we therefore see a very clear role for the business community in helping us design the scheme for investment.

3.7 Lyons does have sympathy for transferring business rates revenues and decisions over tax to local control but we understand his concerns: concerns in the business community about the implications of greater local discretion over tax rates; and wider concerns on the ability to equalise resources between authorities. Clearly, this would be a solution to be developed over the medium to long-term and these concerns would need to be fully addressed.

3.8 If fundamental reform such as the relocalisation of business rates, cannot be achieved in the short-term, then there is still room for further flexibility through re-focusing the Local Authority Business Growth Incentives scheme (LABGI). As part of the debate on incentivisation, the scheme must be reformed to ensure that only those authorities that create growth benefit from it. The current formula applied leads to perverse outcomes, in that it disproportionately benefits those authorities that are not generating growth. We are now working on providing a detailed analysis to demonstrate the effectiveness of the scheme, looking at issues of how fair and equitable it is.

4. CONCLUSIONS

4.1 When considering the introduction of a supplementary business rate, it is essential that the flexibility it may bring, is offset by the additional burden created. This is a key issue for places such as Manchester.

4.2 We are continuing to push the Government for fundamental reform such as the relocation of business rates and the re-focusing of LABGI in the short-term, which we believe will help to achieve greater flexibility.

Memorandum by the Association of Town Centre Management (ATCM) and UKBIDs (SBR 23)

This submission is made by the Association of Town Centre Management (ATCM) and UKBIDs. With 550 members, ATCM is Europe’s largest membership organisation dedicated to promoting the vitality and viability of town and city centres.

Around 400 of our members are practitioners working in towns and cities across the country to manage, develop and market their centres, usually through a partnership between the public and private sectors. Our other members are stakeholders in town and city centres, including major landowners, retailers, government agencies, consultants and suppliers of goods and services.

Since the mid-1990s, ATCM has been at the forefront of the campaign to introduce Business Improvement Districts (BIDs) into the United Kingdom. We undertook research into their operation elsewhere in the world, organised study tours to North America and sought to introduce the concept to Government. From 2002 to 2005 we led the National BIDs Pilot Project, working with DCLG (as ODPM) to ensure that the Regulations and Guidance for BIDs were as effective as possible and enabled the BID concept to move forward. We actively engaged many of those businesses who would subsequently be involved in BIDs in this Pilot Process and we worked with 22 towns and cities in England and Wales to bring forward BID proposals.
Today we run the National BIDs Advisory Service (UKBIDs) and continue to promote the development of BIDs in the UK through initiatives such as the current East Midlands BIDs Academy we are running with EMDA. Two-thirds of BIDs that have been voted through are ATCM members, and we actively work with them to exchange experience, promote good practice and identify key lessons for those who are developing BIDs elsewhere.

Our own experience and the active involvement of our members across the country in the development, management and marketing of town and city centres, in nearly all cases through a real commitment from businesses (whether formally through a BID or on a voluntary basis), gives us, we believe, an informed and relevant insight into Sir Michael Lyons’ proposals to introduce a Supplementary Business Rate.

ATCM COMMENT

In many parts of the country there is a need for investment in major infrastructure that would bring long term economic and social benefit. The success of BIDs in the UK has demonstrated that businesses will agree to pay an additional levy associated with their business rate to fund shared projects. The proposal in the Lyons report to introduce a Supplementary Business Rate therefore appears logical. However, it is our view that the proposals as made will destroy the basic concept of trust that is behind the success of BIDs to date and will almost certainly end BIDs in this country just as they are beginning to demonstrate real success.

Although the Lyons report states that the supplement should be local, additional, transparent and agreed with the local community,17 we believe that the proposals as set out in the report fail in at least two, if not three, of these areas.

1. Although a case can be made that many businesses in London may benefit from a development such as Crossrail and therefore be prepared to fund it, and there are no doubt some other examples elsewhere in the country, on the whole local does not mean, and cannot mean, across a local authority area. BIDs have demonstrated, both in this country and in North America, that businesses who agree to pay an additional levy do so to see an improvement or initiative directly connected to their immediate environment. It is this that changes a BID contribution from a tax to an investment for a business. BIDs are focused in very small geographic areas and success can be seen by the contributors every day—the proposed supplementary business rate will not offer that.

2. The greatest positive that has emerged from BIDs is the level of engagement with the business community in identifying what any levy would do and how it should be quantified. There is real business ownership and involvement and where this has not been done properly, the BID has been voted down. A successful ballot provides clear evidence that businesses want to invest in the BID and support what is being done. Lyons’ proposals for “local business community having a strong voice in the final decision . . .”18 appear to be a substantial backtrack from the current system. His rejection of a voting approval19 will, we believe, undermine the credibility with the business community that BIDs have introduced.

3. The administration of the proposed supplementary business rate by the local authority and its potential introduction merely through a consultation process also threatens the transparency of the system. BIDs have to produce clear business plans, annual reports and face a re-ballot. Transparency is therefore an inherent characteristic of the BID process. We do not believe that the proposed system has anything like this level of transparency.

ATCM CONCLUSION

A great deal of work has been done to introduce BIDs into the UK. BIDs legislation has achieved a system that is truly local, additional, transparent and owned by businesses. As presently proposed we believe that the supplementary business rate, though it could be seen as an extension of BIDs, fails its key tests and will instead be seen as partial relocalisation of business rates.

We have the additional concern that the proposed introduction of a new Supplementary Business Rate will fundamentally undermine the existing BID structure. Securing the support of a business for a BID, which does take time but brings a real sense of ownership in many cases, will be made almost impossible if a local authority has the power to impose a Supplementary Business Rate at some time during the period of the BID—effectively giving the business two levies to pay. This concern is evident from feedback we are already receiving from those of our members now seeking to develop BIDs that will launch in the coming years.

BIDs are now succeeding, and we have indeed seen the first successful renewal ballot in the Heart of London. Others are getting very positive interim assessments. They do take time to establish and a great deal of contact and involvement with businesses is required in this time in order to secure support, but we believe this is a much more effective way of ensuring long term commitment from businesses.

18 Ibid.
19 Ibid, page 300, paragraph 8.55.
Memorandum by Derby City Council (SBR 24)

1. Derby City Council

1.1 Derby City Council is an East Midlands unitary authority with a budget in 2007–08 of £163 million (excluding schools). It is an executive member of the special interest group SIGOMA, and closely follows developments in local government finance. It has a specialist technical finance team, and often contributes to debates on funding, especially where these debates touch on the issues of local authority needs-assessment and equalisation.

2. Executive Summary

2.1 A supplementary business rate, although it would generate welcome additional income for local government, would work against the equalisation principle by which the local government finance system is judged to be fair. In other words, it would allow some authorities to generate extremely large revenues, which could potentially be used to support the mainstream budget and thereby reduce the local council tax. Other authorities—in poorer areas with smaller tax bases—would generate smaller revenues, with the burden of the budget still falling on the local council tax.

2.2 This paper presents three possible solutions to this problem, in the hope that the ostensible fairness of the system can be preserved while additional revenue can be generated. It also raises a question about whether the funding for large infrastructure projects should be sourced locally.

3. Preserving Fairness

3.1 The equalisation principle says that council tax rates throughout the country should vary only according to local political choice, and not because of geographical circumstance. In theory, a local authority’s Formula Grant (comprising Revenue Support Grant—RSG—and redistributed National Non-Domestic—NNDR—rates) is set in such a way that, if all local authorities were to spend at the level of assessed need, then council tax rates across the country would be equal. In practice, this is not the case, as a number of factors militate against equalisation, the main ones being:

— The adoption by the Government of the Relative Needs Formula—RNF—in which the level of assessed need is hidden from view.

— The imposition of grant floors and scaling factors, which impede the flow of grant to areas with the greater levels of “need”.

— Other “incentive funding” (such as LABGI), which distributes resources as a reward, as opposed to distributing resources on the basis of “need”.

3.2 Despite these factors, equalisation as a principle underlying the grant distribution system is valuable as it provides a means by which changes to that system can be judged. Without such a principle, the strength of the case for any change would simply depend on the balance of forces of potential gainers and losers.

3.3 A supplementary business rate would have the power to greatly upset the principle of equalisation. The Lyons Report chart 8.6 (page 298) shows the variance that would exist from upper-tier authority to upper-tier authority if a supplementary rate of 1p was levied. Derby City Council would be able to generate an amount in the region of £2 million per annum, whereas Westminster Council’s amount would be about £24 million, some 12 times higher. When figures for “need” were last published by the Government (as part of the 2005–06 finance settlement, and expressed as Formula Spending Shares), Westminster’s need for resources was only 1.3 times higher than Derby’s.

3.4 With such large sums being generated in some local authorities it is difficult to see how the introduction of a supplementary business rate would not end up supporting mainstream expenditure and reducing the council tax in those areas. Westminster already has one of the lowest band D council tax rates in the country (£682, compared with the England average of £1,321), and an additional £24 million could reduce this to below £500. It is therefore clear that a supplementary business rate could not be introduced without some additional means by which this skewing effect on council tax rates could be tempered, or even avoided.

3.5 Derby City Council here suggests three possible solutions (although none of them is perfect):

3.6 Ring-fencing

3.6.1 One option would be to treat the supplementary business rate as a large-scale Business Improvement District (BID). In other words, it would be down to the business sector to propose a scheme (or schemes), which would be funded by the supplementary business rate. That way would ensure that the additional resources were not being used to support the mainstream budget, and would result in no effect on tax-payers.
3.6.2 However, there are a number of drawbacks to this approach:

(a) Many local authorities are already promoting business growth and investing in infrastructure in their areas. It is by no means certain that the schemes proposed by the business community would be wholly different from those contained within existing local authority plans.

(b) Would the supplementary business rate replace or work alongside existing BIDs? If it were to replace BIDs, then it would seem to lack the local focus that BIDs have (Why should shops in the suburbs contribute to city centre improvements, for instance?) If the supplementary business rate were to work alongside BIDs, then potentially the billing authority would have to administer three separate ratings per property. All this could result in a tremendous amount of additional work for local authorities.

(c) Ring-fencing income is anathema to the notion of local autonomy. Throughout local government it is popularly believed that income allocated to (or generated by) a local authority should be spent by that authority in any way it sees fit, without interference from central government.

3.7 Centralisation

3.7.1 Some degree of centralisation of any additional resources generated by a supplementary business rate would prevent the scheme from having too severe a skewing affect on council tax. Given that NNDR increases over the past 15 years have been kept in line with inflation, while council tax increases have been above inflation, there is some scope for business rates to be reasonably increased anyway. Although the Lyons Inquiry came down against this, it could be possible to increase NNDR by, say, 0.2p above inflation for the next 10 years, and using this money to support mainstream local government expenditure. This would generate an additional £87 million per year for the next 10 years.

3.7.2 In addition to (or instead of) this, any income raised through a supplementary rate could be scaled back by, say, 20%, and this could also be used to support mainstream expenditure. Currently mainstream revenue grant for local government is scaled back by about 70% and so any additional support in this area would be crucial for equalisation to work.

3.7.3 Although centralisation on such a scale would seem to go against the spirit in which Sir Michael Lyons proposed a supplementary business rate, it actually can be used to support local aspirations. An increase in Formula Grant funded by an increase in rates (and the top-slicing of a supplementary business rate) would mean that all authorities would receive additional resources, which could then be used to deliver projects based on local priorities. Such funding would be distributed in line with “need”, and would not based on fortuitous geographical factors (that no local authority can control).

3.7.4 Unfortunately, even this approach would add greatly to the administration of NNDR, in terms of allocating revenue, reliefs and rebates either to the national pot or retaining them locally.

3.8 Quid Pro Quo

3.8.1 Rather than attempting to modify a supplementary business rate in order to make it more compliant with the equalisation principle, other aspects of the local government finance system could be modified such that the overall level of equalisation is improved.

3.8.2 SIGOMA—of which Derby is an executive member—has made a separate submission to the Select Committee Inquiry in which it highlights two inequities in the local government finance system:

— A damping mechanism contained within the Personal Social Services Relative Needs Formula. This mechanism reduced SIGOMA’s collective RNF funding by some £226 million in 2007–08.

— A failure on the Government’s part to commit to the revaluation of domestic properties so that the council tax system could be based on up-to-date information.

If either or both of these inequities could be removed from the system at the time of a supplementary business rate being introduced, then the distributional effects would tend to cancel out, making the process more manageable and improving equalisation in some areas at the same time.

4. Funding New Infrastructure

4.1 In discussing how local authorities could spend the revenues raised by a supplementary business rate, the key word used by the Lyons Inquiry seemed to be “infrastructure”. It is certainly the case that the Mayor of London intends to use a supplementary rate to part-fund Crossrail. Clearly, the additional revenue is meant to be used for addressing major transport needs, and will go beyond the scope of work usually carried out in a Business Improvement District.

4.2 However, this raises the issue of the need for infrastructure. If such a need exists, is it not capable of being assessed against objective criteria that are applied to all authorities? If so, could this not be funded by central government in the same way in which other local authority spending need is funded?
4.3 Local business would no doubt benefit from improvements to the local infrastructure, but the benefit of such schemes usually extends well beyond immediate administrative boundaries, and so there is a further argument in favour of centralising a proportion of the income generated by a supplementary business rate, and using this to subsidise need-assessed infrastructure projects.

5. RECOMMENDATIONS

5.1 That the Committee recognises that a supplementary business rate could not be introduced without at the same time introducing other mechanisms to prevent a severe skewing of the local government finance system.

5.2 That this other mechanism would consist largely of centralisation and redistribution, recognising that resources should flow to where the need to spend is greatest.

Memorandum by The Chartered Institute of Public Finance and Administration (CIPFA) (SBR 25)

CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA’s members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information, and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

CIPFA makes the following points regarding specific areas of interest highlighted by the Committee on launching this enquiry:

Regarding the rationale for introduction of a supplementary business rate, CIPFA believes that the detailed work of the Lyons Inquiry, which consulted widely and at length, deserves serious attention being given to its findings, including this proposal concerning permission for local authorities to levy a supplementary business rate.

CIPFA sees the following points from its submissions to the Lyons Inquiry as relevant to supporting the case for a supplementary business rate, to be permitted as an option for local authorities to exercise:

- “A significant increase in the proportion of expenditure that is raised locally would assist in the revitalisation of local democracy and its strategic role”
- “a change in the balance of funding towards local resourcing and the non-hypothecation of funds would assist in the management of pressures on local services”
- “CIPFA has consistently argued for the return of non-domestic rates from being a national tax to a local tax . . . It would enhance and underscore the inter-relationships between local authorities and their local businesses. Further, if this change is politically acceptable, it would be technically the simplest way to shift the balance of funding significantly.”
- “We also recommend that the consequences and fairness of the policy of pegging business rates to inflation should be re-examined. It has resulted, over time, in a lower proportion of local expenditure being funded by business, which in turn has put greater pressure on government grant and the council tax.”
- “We would also suggest that in terms of fairness of business taxation, taxation should be seen in the round. We are mindful of reports that for big business corporation tax can be difficult to assess and collect due to the potential to ‘move profits around’ between countries. Property tends not to shift between countries in the same way.”

CIPFA’s views in this debate follow up the Institute’s earlier 2005 publication on the Policy Change Agenda and Local Services, which addressed arguments on the balance of funding shifting to greater local tax-raising, and the principle of subsidiarity.

Regarding accountability and approval mechanisms for the introduction of a supplementary business rate at a local level—the role of business and the wider community, if offered as an option to local authorities to introduce (or not to introduce) a supplementary business rate, the introduction of such a rate could learn from the experience of the greater autonomy for local government in taxation matters available to authorities in the USA for example, which impressed delegates from CIPFA’s Local Government Policy Panel who took part in an exchange programme with their peers from the USA and Canada in 2006. Whilst it is not possible to simply transplant different countries’ taxation system cultures into the UK local government system, the existence of greater local authority taxation independence in successful economies such as the USA can at least illustrate that supplementary local rates in and of themselves are not automatically negative. Learning from other countries’ experiences in this type of local taxation may help
to allay the initial opposition to a supplementary business rate which business organizations may be expected to raise. We also note that the City of London Corporation already enjoys the power to levy a supplementary business rate.

Regarding consideration of implementation issues, including the impact on local authority tax bills and decision-making in two-tier local authority areas, the work by Rita Hale & Associates Ltd with CIPFA for the 2004 Discussion Paper The Relocalisation of the Non-Domestic Rate considered earlier research undertaken for central government. Overall it is considered that appropriate steps would be able to allay initial fears of a local authority’s business community over the implementation of a “new”, or rather “returning to greater local control”, business rate.

Regarding the appropriate scale of the supplement, and the threshold for payments and whether small businesses should be required to pay, these aspects of the inquiry address an important part of the debate, namely the desirability of leaving to local authorities the final decisions as to whether to levy a supplementary business rate, and if so, from what threshold to require businesses to pay (and whether to thus exempt smaller businesses). The reason such decisions are best taken locally is that authorities’ elected members, with advice from their officers and their ability to “take the temperature” of the likely positive (or detrimental) impact on their areas’ businesses, weighed up against the likely benefits of increased revenue for the services they provide to their businesses and residents, are the people best placed to make these judgments—and councillors are also of course the people who are rightly accountable through the community’s assessment of whether such a rate helps, or hinders, their lives overall.

The preparation by a local authority of proposals for its own supplementary business rate would also be an opportunity for elected members, officers and local business people to debate how the funds raised could best be used. End use of revenue raised could of course include funding improvements in local services which would benefit businesses and their employees. Such local debate would be a means to practice what the CBI president Martin Broughton argued for at the Confederation’s annual dinner in May, when speaking of the ability of a new partnership between the public and private sector to help accelerate the pace of innovation, a speech in which he also called attention to under-investment in public infrastructure vital to private businesses, including road and other transport links. CIPFA supports such a culture of open debate between the local public and private sectors, as expressed by the Institute’s chief executive Steve Freer in Public Finance (18–24 May 2007) when describing the business rate as the most obvious and attractive candidate for a national tax which could be localized, “not least because it o

Increasingly cities like Leeds are facing significant challenges in identifying funding sources for major infrastructure investment, and whilst the introduction of the prudential borrowing regime has given rise to greater flexibility, this has been restricted by the capping limitations placed upon Council Tax increases. We welcome therefore the opportunity to raise additional tax revenues to support infrastructure investment linked to economic regeneration in the city.

Memorandum by Leeds City Council (SBR 26)

1. Rationale for Introduction of a Supplementary Business Rate

Leeds City Council is fully supportive of the proposal to introduce the discretion to levy a supplementary business rate. It is well documented that business’ contribution to local government spending has diminished over time relative to the contribution of Council Tax and this is a clear opportunity to redress the imbalance which has developed over many years.

Increasingly cities like Leeds are facing significant challenges in identifying funding sources for major infrastructure investment, and whilst the introduction of the prudential borrowing regime has given rise to greater flexibility, this has been restricted by the capping limitations placed upon Council Tax increases. We welcome therefore the opportunity to raise additional tax revenues to support infrastructure investment linked to economic regeneration in the city.
If investment was ring-fenced in this way it is our view that the there could be significant economic benefits which would arise through a multiplier effect. To illustrate this, here are three examples in Leeds where this approach could usefully be applied:

(a) Aire Valley Employment Area

This is a major regeneration programme in Leeds covering an area of over 1,000 hectares, which has the potential to be one of the most significant areas of new investment and employment opportunity in the region. It includes over one third of all land in West Yorkshire available for future industrial use and includes a total of 400 hectares of land for potential new development including 180 hectares of brownfield land. Total infrastructure costs are estimated to amount to £300 million, including Highways, Public Transport Infrastructure, Pedestrian/Cycle facilities and work on land occupied by sewage treatment works that requires investment to bring it to the necessary standard for redevelopment. It is estimated that this area has the potential to create 29,000 jobs over the next 10 to 15 years with over 1.3 million square metres of mixed development, largely industrial, warehousing and offices. Once all development is in place, it is estimated that it will generate additional business rates of some £50 million per annum.

(b) Leeds and Bradford Airport

Leeds and Bradford Airport is a key economic driver for the sub-region, and their recently produced vision document forecasts passenger growth numbers of 2.5 million per annum by 2015. However this growth is dependent on the development of improved surface access to the airport, either through a link road or a rail link or preferably both. The level of investment required for these would be an estimated £65 million. It is more difficult to quantify the economic impact of this, but I think there is no doubt that the regenerative effects would be substantial. By 2030, employment numbers, both directly at the airport and indirectly in the sub-regional economy, would be expected to increase by over 2,000.

(c) Holbeck Urban Village

Another example suggests the potential for this type of approach to investment in the interests of added value. The Holbeck Urban Village is the focus of a multi-million pound regeneration programme of about 20 hectares in Leeds. It is expected to create 5,000 new jobs and over 300,000 square metres of new commercial business space for the area. This includes office space, light industrial workspace plus leisure and retail development. Estimated costs of public realm works are about £30 million and empirical research is currently taking place to examine the link between investing in a high standard of public realm and the ability to attract high growth businesses. We would expect to use this type of evidence to determine where this type of investment would bring real returns. Based on putting in place the high quality public realm works envisaged, growth in the business rates yield is estimated to be around £18 million per annum when all the projected developments have taken place.

2. ACCOUNTABILITY AND APPROVAL MECHANISMS

It is important that a supplementary business rate has the support of the local business community. As set out above it may be appropriate to ring-fence the proceeds of the levy to a particular project or a programme of investment which is specifically related to infrastructure development and where business can see a direct benefit. We would support a process which required the approval of both the local authority and the business community, either through the Local Strategic Partnership or the local Chamber of Commerce.

3. IMPLEMENTATION ISSUES

We do not envisage any significant implementation issues. Current systems should be capable of coping with a simple change in the rate in the pound, although should there be exemption from the charge for eg small businesses, this would require third party software suppliers to make changes. In these circumstances the most straightforward way of identifying a small business would be with reference to rateable value.

Further changes would be required if the supplementary levy was to be show separately on the bill, but it is not envisaged that this would be a significant issue.

4. IMPACT ON EQUALISATION

Whilst resource equalisation is a fundamental principle of the local government finance system, we see no detriment in separating this element of rate income. The supplementary business rate provides welcome local flexibility which should be independent of the general system of Local Government Grant.
5. **Scale of the Supplement**

To make a significant contribution to the investment needs of an authority, the supplementary rate needs to be of sufficient scale. The Lyons Inquiry proposed a supplementary business rate of up to 4p; however this would equate to an increase of around 9% on top of the normal annual increase, which may not be acceptable to local businesses. It is suggested that businesses may not be supportive of a supplementary rate of more than 2p. In Leeds, a 1p rate would yield approximately £6.6 million. This in turn over a 25 year period would fund borrowing of almost £78 million at current interest rates, and allow for a 4% Minimum Revenue Provision. Consequently a 2p rate would give a one-off investment opportunity for the city of between £150 million and £160 million. This alone would not be sufficient to satisfy investment needs in a large District Council, however it could be a significant element of a larger and more complex funding package.

6. **Threshold for Payments**

If the supplementary levy were hypothecated to infrastructure developments which had a more general and longer term economic impact, it may be difficult to gain the support of small businesses who may not see any direct benefit, therefore it may be appropriate to set a threshold which excludes small businesses from payment.

In doing this, it may be preferable to use the thresholds already in place for Small Business Rate Relief so that large businesses with a number of small properties do not avoid the supplement. A further advantage is that qualifying properties are already identified on local authority rates systems which would simplify implementation still further.

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**Memorandum by Hertfordshire County Council (SBR 27)**

The Council believes strongly that the level of business rates should be determined by local authorities and the income collected fully returned to them to fund local services. This would both improve accountability and increase the interest of local business in the expenditure and performance of local authorities. That said, the introduction of a supplementary business rate is a step in the right direction providing a welcome source of additional funding and therefore we support the Committee’s inquiry to examine the case for Government to introduce a power for local authorities to levy a supplement on the business rates within their area.

It is clear from an analysis of the budget pressures faced by Hertfordshire that central government support is not keeping pace with the demands on the council’s budget from demographic changes and inflation. Currently, funding this deficit falls totally on council tax payers and it is only fair that local businesses should be called upon to meet their share too. This leads to the views expressed below and in particular that although local consultation is important it is also important to ensure that businesses cannot veto legitimate spending plans.

The remainder of the letter sets out Hertfordshire’s response on each of the specific issues posed in the press release inviting the submission of written evidence.

1. **The Rationale for Introduction of a Supplementary Business Rate**

In recent years, a greater burden has been placed upon local council taxpayers, which as result of its narrow taxbase and its lack of buoyancy have led to council tax increases in excess of inflation.

The rationale for the introduction of a supplementary business rate should be to provide an additional funding stream in order to meet the challenges facing the authority, following feedback with stakeholders. Consequently, the revenues from a business rate supplement should be unhypothecated.

2. **Accountability and Approval Mechanisms for the Introduction of a Supplementary Business Rate at a Local Level—the Role of Business and the Wider Community**

The council believes the business community should be consulted prior to the levying of a supplementary business rate in the same way as we consult with other stakeholders. However, businesses should not have the ability to veto on any aspect of the levy or how it is spent. These are policy issues and should be made by local councils. Any ring fencing or hypothecation only acts to distort accountability.

The introduction of a supplementary business rate may negate the need for Business Improvement Districts.
3. **Consideration of Implementation Issues, Including the Impact on Local Authority Tax Bills and Decision-making in Two-tier Local Authority Areas**

In the event that businesses were given the power of veto this would undoubtedly give rise to problems in implementing a supplementary business rate in two-tier areas.

This is because lower tier authorities and police authorities already have close working relationships with the businesses in their localities. Upper tier authorities would need to compete for resources along with these organisations and it would be expected that because of the less localised nature of their services reconciling their aspirations with the wider business needs could prove more difficult.

4. **The Impact of a Supplementary Business Rate on Equalisation**

The council believes all revenues raised by the supplementary business rate should be retained locally and therefore not subject to an equalisation or limitation scheme. Anything else than this would be extremely difficult to justify to the business community.

5. **The Appropriate Scale of the Supplement**

The scale of the supplement should be a local decision and should not be subject to national guidelines.

6. **The Threshold for Payments and Whether Small Businesses Should be Required to Pay**

There should be no threshold or special exemption from the payment of the business rate supplement, except where existing national exemptions and reliefs apply.

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**Memorandum by The Institute of Revenues Rating & Valuation (IRRV) (SBR 28)**

The IRRV is the professional body concerned with all aspects of local taxation in the United Kingdom. Its members are engaged in the valuation of property for taxation, local tax administration, the appeals process and financial management in local government. The Institute represents the professional interests of its 5,000 members who work within this broad church. The Institute strives to bring about improvements in the local taxation administration processes; a recent example of this is its recent detailed Committee of Inquiry Report into the Operation of Local Taxation and its Relationship with Local Government Finance, a copy of which has been submitted electronically with this letter for reference.

**Body of Response**

For many years a return to localisation of the business rate was an IRRV policy. A move to implement a supplementary business rate would be a step in that direction; but more recently IRRV have accepted that the imbalance of the Rateable Value tax base between authorities makes localisation very difficult to support due to the need for an equalisation system. Even a supplement raises issues of equality between authorities containing large town centre retail hereditaments and those with major industrial properties, compared to many authorities with much smaller rateable value tax bases. Without business representation in the electoral process an SBR would suffer a lack of credibility. At the same time it could be seen as an ideal scapegoat for failure to provide proper centralised funding for responsibilities passed down to local government.

The Business Improvement District schemes are not numerous at present, with only a few schemes operating around the country. A significant proportion of these are operating successfully however. An enhanced BID scheme would be the better model than a supplementary business rate for the following reasons: every stakeholder has to be involved, there has to be consent and purpose to the additional rate; and by localising the area in which the supplement is payable, and allocation of the income to specific schemes, this could overcome some of the equalisation issues.

We are supportive of the government’s aim to create local incentive schemes. The early work on local authority business growth incentives (LABGI) and business improvement districts (BIDs) is a positive sign of policy development in this area. These schemes are an opportunity to raise revenue locally in a controlled manner. We would like to see them extended and given a greater role. Funds from the schemes should be ring fenced to local projects, especially improvements in infrastructure. The government should consider matched grants for BID schemes, which are created to revitalise local shopping areas and high streets which have suffered with the growth of out of town retail parks. The BID revenue could be raised more formally, as part of the business rate levy, but spending would be controlled by ratepayers, as in the present schemes. This approach would create an independent source of income based on rateable values and could pave the way for further expansion.
One possible solution would be to introduce an elective BID scheme, under which authorities could charge limited costs for specific purposes that benefit the business community to a separate fund met all, or in part, from a business rates supplement. Under such an elective scheme, authorities would be able to choose to opt out of it if they could show that it did not have the clear support of the business community. Turning it round from a situation where ‘some opt in’ to one in which ‘some opt out’ could help to establish BIDs more widely and at a faster rate than at present.

Another solution would be the introduction of differential multipliers for different classes of property, determined at a local level. This would help to regenerate commercial activity and economic activity generally.

Memorandum from Leeds Chamber of Commerce and Industry (LCCI) (SBR 29)

1. About Leeds Chamber of Commerce & Industry (LCCI)

   1.1 Leeds Chamber of Commerce and Industry (LCCI) is by some margin the largest private sector business representation organisation within the city of Leeds and has in its membership over 2,000 businesses of all sizes and from all sectors. LCCI’s primary aim is to focus upon the continued economic success of Leeds and as such plays a very active role in the future development of Leeds.

2. The City of Leeds

   2.1 Leeds has transformed itself over recent decades from a traditional northern city to a vibrant, modern place to work, live and visit. Indeed over the last 10 years it has been the fastest growing city in the UK and is now the largest financial, legal and business services centre outside London. The majority of this growth has come within and funded by the private sector. Leeds is seen as a good city to do business and it is critical that no additional barrier(s) are introduced which might curtail continued growth.

3. The Lyons Inquiry into Local Government

   3.1 LCCI has also played an active role in contributing to the Lyons Inquiry into Local Government, including hosting a meeting with Sir Michael Lyons and a number of local businesses, when the role of Place Shaping was discussed along with options for additional local fund raising initiatives. Therefore LCCI very much welcomes the opportunity to provide input on behalf of local business to the continued debate on local government funding, and specifically in this instance Supplementary Business Rates.

4. The Rational for Introduction of a Supplementary Business Rate

   4.1 Ideally we would prefer to see no increase in business taxation. At a time when businesses have experienced significant increases in their utility, fuel and employment costs, the overall burden of tax has been steadily rising. Many businesses have so far had little opportunity to raise their prices for fear of becoming uncompetitive. Therefore any additional financial burden such as a supplementary business rate would not be welcomed and might prejudice the competitiveness of the city and put at risk the continued economic growth of Leeds.

5. Accountability and Approval Mechanisms

   5.1 Since the Supplementary Business Rate would be focused solely upon business, LCCI would not support any proposals which exclude the business community from determining the level of the rate, the identification of projects on which to spend the additional monies and the processes of accountability necessary to ensure that the funds have been spent appropriately. To the contrary, we believe that as it is business that would be contributing financially, only business should be involved, with the respective local authority, in the decision making process and not the wider community. Any voting system and consultation process would need to be as transparent and as simple as possible to encourage business engagement.

6. Consideration of Implementation Issues

   6.1 LCCI would only support the introduction of a Supplementary Business Rate if a majority of local businesses agreed. Therefore some form of referendum would have to be implemented, allowing businesses to vote on proposals for the introduction of such a levy. The proposals would have to be very specific in terms of: what the monies would be spent on; the precise cycle of payment of the supplementary rate (10, 15, 20 years etc.); and the exact level of the levy. In addition LCCI would want minimum voting levels to be implemented to address any democratic deficit. In other words, a majority of businesses would need to
carry the vote, not a majority of those businesses voting on the day! If the referendum resulted in a majority in favour of a supplementary rate then the monies should be “ring-fenced” for investment in specific projects that would be of direct benefit to the local business community.

6.2 The monies should not be a substitute for existing local authority budgets or for existing central government budget allocations. It must genuinely be additional expenditure.

6.3 The referendum would have to be managed and funded by the local authority using its existing database of local businesses. This would be the most efficient and cost effective mechanism.

7. THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

7.1 For the express purposes of Equalisation a Supplementary Business Rate must be viewed in isolation from existing business rates and linked directly to a local project, which would benefit the Leeds business community. Therefore any Supplementary Business Rate should not be included in any Equalisation discussions at the national level. Leeds is one of the cities which collects more business rate revenue than is received back in grant from government. Moreover, the highly complex “needs based” system of budget allocations which is currently in place consistently ensures that Leeds’ annual funding allocation is amongst the lowest of the core cities.

8. THE APPROPRIATE SCALE OF THE SUPPLEMENT, THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

8.1 As mentioned previously the business community is reluctant to adopt any new measure that is likely to raise their cost base. However, if the supplementary rate were to be introduced then it would need to be at a sufficient level to enable significant projects to be undertaken which would directly benefit business. An example of such substantial project is the additional transport infrastructure requirements of a regional capital and international city like Leeds. The well documented and abandoned Leeds Supertram scheme was estimated to cost anywhere between £500 million to £1 billion (depending upon the scope and geographical coverage of the scheme and whether only capital or ongoing revenue subsidies were included in projections). In Leeds we estimate that a 1p increase in the business rate precept equates to circa £6.75 million additional annual revenue and a real increase of 2.25% on current levels. Taking the maximum level of a 4p increase suggested by Sir Michael Lyons, this would raise £27 million annual revenue and equate to a 9% increase on current levels. Over 25 years and via local authority prudential borrowing, this might raise a capital fund of around £300 million but this is less than the cost of a major infrastructure project such as Supertram or any equivalent of the scale needed.

8.2 Therefore, the Supplementary Business Rate would have to be set at such a level and over such a period that together these would be onerous OR additional funding would have to be raised through other taxes or levies, the brunt of which would probably again be borne by the local business community. Also it has to be remembered that businesses would still face a year on year increase in business rates in addition to any Supplementary Business Rate.

8.3 Whatever rate might be considered it would be essential to present a clear business case for the supplement and the length of time that the rate would be in place. It should not become an ongoing additional revenue stream for the local authority to access.

8.4 As mentioned above the Supplementary Business Rate would need to be set at such a level that would enable large-scale projects to be undertaken. However such a level is likely to be unpopular across the business community. Consideration would have to be given to some form of exemption or even the introduction of sliding scales for payment dependent upon turnover. A “one size fits all” rate initially sounds the best option but in reality it would be difficult to justify. Unfortunately this would potentially increase the administration costs of the Supplementary Business Rate and proportionately increase the burden on larger businesses.

9. CONCLUSION

9.1 The introduction of a Supplementary Business Rate initially appears to have potential and would provide the opportunity for slightly more transparency in local government spending. However, further investigation of what initially could be a simple scheme to introduce and manage shows that it actually becomes more complex. There would need to be extensive awareness raising of the scheme, determination of the project(s) to be undertaken and a referendum possibly with exemptions and/or sliding scales of contributions. As a consequence LCCI would not support the introduction of Supplementary Business Rate.

9.2 The financial burden on businesses in Leeds continues to rise. In addition to current taxes and levies, additional proposals under consideration include: Developer Contributions to transport infrastructure; reinforcement of section 106 levies, Planning Gain Supplement and Business Improvement Districts. Whilst
a majority of these are specific to developers, it is development investment which initially drives an economy forward and the addition of a Supplementary Business Rate is a step too far and it is the view of LCCI that this would adversely affect the competitiveness of the city of Leeds.

9.3 However, LCCI agrees that there needs to be a better balance of funding between central and local government and thus more local determination of major infrastructure schemes. LCCI’s preferred option for this is partial retention of current Business Rates. This addresses the balance of funding issue, is transparent and simple to administer, does not pass the additional financial burden directly to the business community and partially addresses the unfair Equalisation issue whilst retaining a substantial element of means testing. An alternative system that LCCI may support is a simplified, transparent and consistent LABGI scheme, involving retention of the proceeds of growth in the business rate base for a fixed number of years i.e. lagged retention of business rates. Both options are referred to by Sir Michael Lyons within section 9 of his full report, but they appear to have been discounted too easily by central government in favour of a Supplementary Business Rate.

Memorandum by the Department for Communities and Local Government (SBR 30)

1. The Government welcomes the opportunity to submit a memorandum to the Committee on the important and complex subject of a supplementary business rate. The timing of the Committee’s inquiry is particularly welcome at a time when the Government begins its own detailed consideration of the issues in the light of Sir Michael Lyons’ report. There will be a range of views and interests which need to be considered carefully. The Committee’s findings and report will be an important contribution to the development of proposals in this area.

BACKGROUND

2. The Government agrees with Sir Michael that business rates are a successful and stable property tax and that there is no case at this time for changing the current RPI cap on the national level of business rates. The Government therefore intends to maintain the business rates system broadly as now, whilst accepting Sir Michael’s case for improving some aspects of the regime: in particular the Government is, subject to Parliament, changing the way in which rates apply to empty properties and will be reviewing exemptions and reliefs more generally, as well as examining the case for a form of local supplementary rates.

3. Currently local authorities, apart from the Corporation of London, have no powers to raise supplementary rates, although businesses may under the business improvement district (BID) scheme vote to pay a levy on business rates for up to five years to fund defined activities such as increased security measures. Detail on BIDs is at Annex A. Sir Michael has proposed new powers for local authorities to raise a local supplementary business rate, allowing them to choose to raise new revenues to invest locally.

4. The Government is keen for there to be a debate with stakeholders on the pros and cons of a local supplement, looking at the possible objectives and design of such a supplement. It recognises that the issues raised by a local supplement and its potential impact on different sectors and interests are many and varied. The Government has made clear that a supplement would need to be subject to credible accountability to rate payers and real protection for any businesses—particularly small and medium enterprises—that might be disproportionately affected. The Government will hold discussions with key stakeholders on what the best options for a local supplement may be, before bringing forward proposals.

5. Against that background, this memorandum sets out some of the issues relevant to considering the specific questions raised by the Committee along with some additional issues that will need to be thought through in working up policy options.

6. In addition to thorough consideration of the issues with stakeholders, policy options for local supplements will need to be developed in the context of a range of Government policies to which they have the potential to contribute and with which they need to be consistent. As well as the framework for strong and prosperous communities set out in the recent Local Government White Paper, these policies include the current Review of sub-national economic development and regeneration which is focusing amongst other areas for potential reform on strengthening local authority incentives and decision making powers to improve economic outcomes, and on strengthening the interface between the public and private sectors to maximise the effectiveness of investment. The review is also looking at developing mechanisms to drive sub-regional collaboration across functional economic areas, including city regions, building on the Local
Government’s policy to encourage business engagement in local governance (eg through Local Strategic Partnerships and leadership of Local Enterprise Growth Initiative boards) to ensure that it is informed by business needs and improved by the expertise and perspectives that businesses bring is also relevant.

**The Rationale for Introduction of a Supplementary Business Rate**

7. Sir Michael saw a need for communities to have more power to choose to invest in themselves and pointed to an appetite amongst businesses for greater engagement with local authorities on economic development issues. A local supplement has the potential to address projects and services for which existing funding is not available. Some commentators have argued that to ensure the support of business taxpayers they would expect any supplement to be hypothecated specifically to initiatives of direct benefit to business. Sir Michael himself, while he emphasised the need for the business community to have confidence that a local supplement was in their interests, did not favour ring-fencing it for certain kinds of projects. Either way, however, a supplement could be on a larger scale and over a longer term than BIDs, which tend to be tightly focussed on specific, local measures or activities, and can last for up to five years before a renewal ballot is required.

**Accountability and Approval Mechanisms for the Introduction of a Supplementary Business Rate at a Local Level—The Role of Business and the Wider Community**

8. Both accountability to the local community and accountability to business ratepayers would need to be secured. Increasing taxation on business has the potential to have either a detrimental or a beneficial effect on a community, so a scheme needs to take account of the impact across the community.

9. As Sir Michael Lyons says, trust and transparency are important in securing accountability. The two main options he identifies for delivering accountability to business are a vote or a statutory consultation process, which he on balance favours.

10. The Government will consider the evidence and stakeholders’ views on the question of accountability and how best to secure it. Options should also keep complexity and bureaucracy to a minimum.

**Consideration of Implementation Issues, Including the Impact on Local Authorities Tax Bill and Decision-making in Two-tier Local Authority Areas**

11. The impact on tax bills would clearly depend directly on the scale of a supplement. A four pence supplement would for example increase business rates bills by around 10%.

**Two-tier Areas, London and the Future of BIDs**

12. Business rates functions rest with district councils, unitary authorities, metropolitan borough councils and London boroughs. Sir Michael Lyons discusses in his report the question of which types of authority should have the power to raise a supplement. He sees as perhaps the key factor businesses’ preference for stability and predictability and suggests keeping the number of different supplements to a minimum for simplicity and to minimise administrative burdens—though the latter will affect only businesses with branches in two or more authorities’ areas.

13. In line with this thinking, his basic proposition is that outside London upper tier authorities should levy the supplement. He suggests that this should be on the basis of discussion and agreement between the county and relevant districts and that there should be a joint plan for using the proceeds to meet the overall needs of the area. For London, he suggests a single city-wide levy set through agreement between the GLA and the boroughs with a joint plan for city-wide targeting of the investment of the proceeds.

14. Authorities coming together to set a single supplementary rate to fund agreed investment raises some important issues. Suitable financial accountability would be critical. This might require a statutory joint basis, as each authority’s fiduciary duty and accountability would be to its own community. There are also the questions of how to deal with an authority who decided to opt out of a joint arrangement at any point and of likely support from business or communities in one area for investment in another. Of course county councils and the Mayor and GLA in London already exist and could provide a statutory basis for a supplement at that level if that was considered appropriate.

15. Sir Michael recommends that the local authority role in BID schemes should continue to rest with district councils, unitary authorities and metropolitan and London borough councils. He does not, however, discuss what the implications of a new supplementary rate might be for BIDs. In particular there is the question of likely business attitudes to two supplements on their rates bills.
OTHER ISSUES

16. One important issue not discussed by Sir Michael in his report is the implications of supplementary rates for the central list.20 The central list raises two main issues in the context of supplementary business rates. By definition, it would not be possible to levy a “local” supplement on central list rate payers. It would doubtless be seen as unfair by other rate payers if they were in effect “exempt” from any supplement, which in turn raises the question of how the level of any “central” supplement should be determined and what should happen to the proceeds. The second issue is that of movements between the central and local lists which could have a major effect on individual local authorities’ tax bases and hence the revenue they could raise through a supplement of a given level.

THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

17. The Government recognises that the size of authorities’ tax bases and hence the potential revenue that could be raised through a supplementary rate vary considerably. Sir Michael’s report illustrates a spread amongst unitary authorities from Westminster City Council at one end of the scale to Rutland County Council at the other. Sir Michael Lyons recommends against applying special arrangements to high tax base authorities on the grounds that this would undermine the incentive effect and local flexibility—though of course the arrangements he proposes for two tier areas and London could potentially entail some degree of equalisation within those areas. The Government recognises that this is another question on which there will be a wide spread of opinion.

THE APPROPRIATE SCALE OF THE SUPPLEMENT

18. Sir Michael Lyons notes that some BIDs, for which there is no statutorily prescribed limit on the amount of the levy, have levied supplements as high as four pence. He also notes that a one pence supplement across England would raise around £400 million each year (assuming rateable values are not affected), with considerable variation between authorities depending on their taxbase. As well as the amount per year, there is also the question of the duration of a supplement. For BIDs, a levy can continue for up to five years, but a further ballot is then required. Sir Michael raises the question of whether there is a link between fostering confidence amongst business and keeping supplements small, at least initially. He also wonders whether higher supplements might warrant different accountability mechanisms.

19. A number of factors are relevant to considering the appropriate scale of a supplement. These include:

— What is required to make a substantive difference to an authority’s area? This depends to some extent on the timescale of the project or activity in which the proceeds would be invested.

— At what level could a supplement be considered as an unreasonable burden on businesses, including in the context of the overall level of business taxation and risks to competitiveness; what would be “affordable”?

— Who is best placed to decide what is “appropriate” and should there be a centrally imposed upper limit (something Sir Michael favours), or reserve power to set a limit?

THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

20. Sir Michael asks whether there should be a threshold below which small businesses do not pay the supplement. He points to small business rate relief and the decision by some BIDs to calibrate their levies to business size as relevant to this issue. There is also the more general question of whether, unlike in the case of BID levies, business rates reliefs should apply to supplements and if so whether this should be centrally determined or a matter for local discretion—the approach Sir Michael prefers. Authorities could be expected to welcome any discretion, but it may be unpopular with some sectors of business as it would increase complexity and reduce certainty.

21. There are arguments on both sides on this issue, given that business rates are often a higher percentage of turnover for small as opposed to other businesses. A threshold below which small businesses do not pay the supplement would of course be more generous to small businesses than the small business rate relief scheme which at most provides a 50% discount on the rates bill. Small business rate relief is explicitly funded by a “supplement” on the rates bill of businesses not in receipt of the relief. As Sir Michael notes, an exemption for small businesses may be seen as unfair by larger businesses who would in effect have to fund it.

22. It will also be important to consider whether there should be flexibility as well, or instead, to levy a supplementary rate differentially according to different types of businesses.

23. The state aids implications of any exemptions or reliefs will need to be considered.

20 Some properties are not confined to one billing authority area (eg the railway network, telecom networks, gas networks, electricity networks etc). Where a value for connected properties can only properly be ascribed by reference to the whole network, then these properties are usually shown en bloc as one property on the central rating list. The Secretary of State is the billing authority for the central rating list, and therefore collects the rates and submits it to the pool. The central rating list accounts for approximately £1 bn in revenue each year.
CONCLUSION

24. It is clear that there are a number of factors and interests to be balanced in developing policy options for local supplements. The Government believes that there can be no one consensus answer to the questions raised by the Committee—all depends very much on different sectors’ perspectives. The Government will want to analyse the evidence put forward and the Committee’s report very carefully as it takes work in this area forward.

Annex A

BUSINESS IMPROVEMENT DISTRICTS (BIDs)

A BID is a partnership between a local authority and the local business community to develop projects and services in a defined area that will benefit the trading environment.

There is no limit on what may be provided under a BID. Improvements may include extra safety or security measures, cleansing and environmental measures or improved promotion of the area.

BIDs are funded by businesses through an additional levy on the non-domestic rates bill. The levy is collected by the billing authority and held in a separate BIDs Revenue Account where it is ring-fenced and can only be used for the BID.

Businesses decide on the amount of the levy and vote in a ballot on whether the scheme should go ahead. A BID cannot proceed without being approved in the ballot. A successful vote is one that has a simple majority in both votes cast and rateable value of votes cast.

All businesses defined within the BID area are liable for the BID levy following a successful ballot. The size and calculation of the BID levy varies widely between BIDs.

42 BID ballots have now been successful since the enabling legislation came into force in September 2004. A total of 12 have been unsuccessful, although six of these relate to unsuccessful first and second ballots in Maidstone, Runnymede and Southport. One BID (the Heart of London Alliance) has been approved for a second term. The unsuccessful Liverpool City Central BID was successful at the second ballot. Proposals for around another 15 BIDs are being developed.

Research

While the legislative framework was being developed, some key stakeholders led by the British Property Federation, and supported by the Association of Town Centre Managers, wanted property owners included in the mandatory BID levy and therefore the vote. Ministers at the time decided against this option because the BIDs regime is based on the national non-domestic rating system which imposes liability for rates on occupiers. A fundamental shift of policy would be required to make property owners (landlords) liable for a new tax, ie the BID levy.

However, Ministers agreed to commission research to investigate the role of property owners in the development and implementation of BIDs. The report on Part I of the study was published last year and Part II is due shortly. The research is due to be finalised by the end of 2008.

Separate research published in January 2007 examined the development and implementation of BIDs in England. The study indicated that the number of established BIDs would continue to grow for the foreseeable future, and that they were unlikely to move beyond relatively focussed programmes of activity with modest budgets.

Memorandum by East Sussex County Council (SBR 31)

1. INTRODUCTION

1.1 East Sussex County Council is a coastal upper tier authority in the South East with a population of 511,000 (June 2007).

1.2 According to CIPFA 2006–07 statistics, the county council area of East Sussex supports 16,300 business properties with a rateable value of £261 million. They contributed £94 million to the NDR pool.

1.3 East Sussex has 87% of businesses with 10 or fewer employees and only 2% of businesses 50+ employees.

1.4 The business community of East Sussex is overwhelmingly made up of small (and micro) businesses. As a result, amongst principal authorities, East Sussex has one of the lowest average contributions to the business rate national pool per '000 population (£187) and also one of the lowest average business rateable values per Non Domestic Property (£16,000).
2. **Rationale for Supplementary Business Rate**

2.1 To our knowledge it has never been tested whether there is any thirst locally amongst the business community for a supplementary business rate (eg up to 4p). The large percentage of small businesses in East Sussex, largely with low turnovers, suggests that a supplementary business rate might not be at all popular without confidence building and a very considered presentation to them.

2.2 East Sussex agrees that only a local discretion on the business rate levy will engage the business community in local economic development issues. In view of the discrepancy in yield between authorities, East Sussex contends, contrary to the Lyons Report, that a comprehensive equalisation process should be established to ensure geographical fairness, particularly for small businesses, and in rural and deprived areas (ref paragraph 5 below). In addition, the County Council would wish to offer local relief or discounts to businesses to provide a geographical incentive for businesses to locate themselves in areas of employment/social need.

3. **Accountability and Approval Mechanisms**

3.1 There are a number of business organisations within East Sussex: the actual number (and type) of business they represent would need to be more fully understood as would the actual accountability to their members. In principle accountability might only be workable (currently) if a pragmatic view were taken to the reasonable breadth and formality of representation achievable. However, a process based on consultation rather than voting is preferred, which would require clear rules and accountabilities to be established for those participating.

4. **Implementation Issues**

4.1 Strategic level business issues often go beyond the lower tier local authority boundaries—including for businesses travel, sales, gaining staff, etc. It is believed that approximately 55% of East Sussex business markets are within the county boundary. Because of this, the County Council agrees with the Lyons Report that supplementary business rates should be levied by upper tier authorities. The County Council most certainly wishes for consultation input by the District and Borough Councils not least as they will collect the supplementary business rate and also they will have regeneration/economic development strategies and local development frameworks of their own.

4.2 There is a large gap in provision of business support for micro businesses which funding from a supplementary business rate could help address. There is a discernable problem with entrepreneurship throughout the county and particularly in the more deprived areas (eg Hastings).

4.3 Having access to start up finance (eg via a fund that would take the best practice from the now defunct “Enterprise Allowance” and other enterprise funding such as “revolving funds”) could be a local funding consideration.

4.4 In respect of capital finance, brownfield land access issues with the poor road infrastructure in the County remain a large barrier to private development and public finance gap funding is often the only way to unlock this much needed provision.

5. **Equalisation**

5.1 Having a wide disparity of business base nationally would lead to an unfair gap in funding provision, especially in respect of infrastructure (for example road/rail/premises). Yields will be fortuitous and not necessarily according to need. Areas where business is growing in the more prosperous areas will be unfairly favoured against those in the less prosperous areas such as East Sussex. As per paragraph 2.2 above, contrary to the Lyons Report, East Sussex County Council believes that consideration should be given to a basis of equalisation for local authorities that are economically lagging behind and more fairly to equalise each local tax base.

5.2 For East Sussex County Council, the lowest 1p levy might provide a small yield of less than (say) £2.25 million per annum. This would need to be weighed for real potential impact (on the businesses’ bottom line) against negative business reactions, against local authority and business administration costs, against achievability of actions within the business community (versus their expectations), and including the balancing of political input that the five Boroughs/Districts may have etc etc. Larger authorities and those with a larger business base would benefit from a much greater yield for the same administration costs. East Sussex County Council feels that a form of equalisation should take account of administration costs for such a supplementary business rate scheme.

5.3 Equalisation should also fund an exemption for small businesses (ref paragraph 7 below).
6. SCALE OF SUPPLEMENT

6.1 As per paragraph 2.1, the large percentage of small businesses in East Sussex, largely with low turnovers, suggests that a supplementary business rate might not be at all popular without confidence building and a very considered presentation to them.

6.2 A limit of less than 4p might enable confidence to grow, albeit more gradually, amongst the community of small and low profit businesses.

7. SMALL BUSINESSES

7.1 The high number of micro businesses in East Sussex suggests significant eligibility for small business rate relief. To economically compromise this relief by a supplementary business rate seems counter-intuitive. At the same time the few larger firms in East Sussex may not see a supplementary business rate as fair if they were effectively subsidising non contributor’s by their levy. East Sussex believes small businesses should be exempted from any supplementary business rate and that the exemption should be financed by a funding equalisation facility (ref paragraph 5 above.)

Memorandum by Craven District Council (SBR 32)

1. THE RATIONALE FOR INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

If the additional tax is to be supported by business community it needs to be implemented with the consent of businesses for the benefit of all. Pooling resources can be an effective approach to addressing key issues affecting the local economy.

Many businesses in rural areas are regarded as lifestyle businesses with low levels of turnover and limited aspirations that fit with a standard of living that they wish to achieve. Additional taxation has a significant impact on these small businesses and therefore it will be important to understand the consequences of variable businesses rates across local authority boundaries, in particular the impact on business formation.

2. ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS AND THE WIDER COMMUNITY

Although only at the initial stages of development the Business Improvement District (BID) approach has been favourably received as the increase in business rates is very modest (1–2%) and control of the additional tax is in the hands of local businesses.

This approach can be used by businesses to collectively benefit the local business community and so not see taxes used in activities that they regard as having little direct worth or control.

The twin principles of gaining business support for any scheme and that all businesses should pay for fairness are essential.

3. CONSIDERATION OF IMPLEMENTATION ISSUES, INCLUDING THE IMPACT ON LOCAL AUTHORITIES’ TAX BILL AND DECISION MAKING IN TWO TIER LOCAL AUTHORITY AREAS

No comments.

4. THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATIONS

No comments.

5. THE APPROPRIATE SCALE OF THE SUPPLEMENT

To gain the consent of businesses 2% of rateable value would appear to be the upper range based on the experience of BIDs across the country.

6. THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

Much will depend on both the level of the supplement and the costs of collection. It is likely that collecting the supplement from businesses with business rateable value of less than £3,000 would be uneconomic.
1. **INTRODUCTION AND BACKGROUND OF LOCAL AUTHORITY**

1.1 Birmingham City Council welcomes the opportunity to provide evidence to this Select Committee Inquiry.

1.2 Birmingham is the largest business rates contributor of all billing authorities to the national pool outside London for 2006–07. The City Council currently has three Business Improvement Districts.

1.3 Birmingham City Council is strongly in favour of the proposed introduction of a supplementary business rate power.

1.4 The following paragraphs set out our views in detail under the headings given as the terms of reference for the inquiry.

2. **RATIONALE FOR INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE**

2.1 At present, billing authorities collect business rates in their areas and pay them into a national pool for redistribution as part of the formula grant. However, local authorities do not receive enough funding to match the needs of an area due to, for example, the damping mechanism in the formula grant. Birmingham lost £24 million due to damping in 2007–08; this is equivalent to the revenue of a business rates supplement of three pence in Birmingham.21

2.2 During the budget planning process, local authorities have to strike a balance between key service spending, service improvements and keeping a reasonable increase in council tax. However, given the extent of statutory requirements, local authorities may have very little discretion over possible areas of additional spending. Business ratepayers may therefore not always be able to see the link between their contributions and the benefits received in the area.

2.3 We believe that a supplementary business rate could help to reinforce this link. In addition, there would be greater flexibility for local communities to raise additional resources to invest in themselves and strengthen their local economies.

2.4 The Lyons Inquiry suggested four principles should be followed in the development of a supplementary business rate:

   — local, both in the decision to levy a supplement and in the decisions about how it is to be spent;
   — additional, with any new revenues available to spend on new infrastructure or projects rather than taken into account in central government grant allocations;
   — transparent, so that businesses and other local taxpayers understand how much money is being raised and what it is being spent on; and
   — agreed within the local community, with the local business community having a strong voice in the final decision on whether there should be a supplement, and the purpose to which the proceeds are put.

We believe that the above principles should also be considered in the context of City Regions.

2.5 Supplementary Business Rate should be seen as one part of a wider package of flexibilities to enable local authorities to make better use of assets and to invest more locally-generated funding in infrastructure and economic development. It should not be seen merely as a way to raise additional resources. It should also be part of a general push to improve business engagement in local government and in economic development generally.

2.6 We note that there is a possibility that the Supplementary rate could be applied to the whole of a local authority area, rather than in specific zones. We believe that this is a feasible approach and the revenue generated could be used to support the borrowing costs for capital developments, which will benefit the business environments of the area: for example, large development projects to improve transport links.

3. **ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS AND THE WIDER COMMUNITY**

3.1 We recognise the importance of a formal consultation with business ratepayers in the area before the introduction of a supplementary rate. However, if the intention is to apply a single rate across the City, then a voting mechanism such as currently used in Business Improvement Districts (BIDs) may not be applicable.

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21 Lyons Inquiry estimates that Birmingham could raise £7.7 million by a one penny supplement in business rates.
to the approval process, as it would be very time consuming and costly. Moreover, it may be difficult to finance projects which may not be in the short-term interests of those affected, but which have widespread benefits in the long term.

3.2 There are two aspects of approvals to be considered: first, the agreement of a specific supplement rate, and second the use of the revenue raised.

3.3 We believe that these two aspects can be approved via normal Council approval processes including our regular consultations with the business community and then the Cabinet and Full Council meetings, in a similar way to the process of council tax setting. No interventions from Central Government are necessary. We believe that local accountability can be preserved in this way.

4. CONSIDERATION OF IMPLEMENTATION ISSUES, INCLUDING THE IMPACT ON LOCAL AUTHORITIES TAX BILL AND DECISION-MAKING IN TWO-TIER LOCAL AUTHORITY AREAS

4.1 The City Council is a Metropolitan District and we have no views on this issue.

5. THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

5.1 We recognise areas that are regional business centres such as the Core Cities and central London authorities may have greater powers to raise revenues than authorities with a low business base. However, we strongly object to any suggestions of special arrangements to be imposed by Central Government for equalisation or a limitation on the use of the revenue to authorities with a high business base. This will greatly erode local accountability and penalise those authorities which take the political risk to raise a supplement.

5.2 Any supplementary business rate should be truly additional and should therefore not be included in any of the equalisation calculations which form part of the Formula Funding grant system.

6. THE APPROPRIATE SCALE OF THE SUPPLEMENT

6.1 Local authorities and local businesses have the best knowledge to decide the rate of supplement in their areas. Local authorities need to assess the impact to the local economy in setting the supplementary rate; there is no need for the Government to impose a cap on the level of supplement.

7. THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

7.1 As recognised in the Lyons Inquiry, small businesses pay a higher proportion of turnover in rates than larger businesses. There may be a legitimate case to introduce a discount or exemption to small businesses from business rates supplement, although this may be seen as unfair to larger businesses.

7.2 We do not think there is a need for Central government to set the overall framework on applying national exemptions and reliefs to the supplement. Such issues are best dealt with by local authorities and local businesses, taking into account the purpose of the supplement and local economic conditions.

7.3 The Committee may wish to consider the impact of the introduction of business rates supplement in areas with a high level of industrial and commercial property vacancy, especially in relation to forthcoming reform of the empty property relief.

7.4 Birmingham was in the top deciles for commercial and industrial property vacancy rates between 1998–99 to 2004–05 (see chart below).
7.5 Local flexibility in setting thresholds/reliefs etc is vital to allow a supplementary business rate scheme to be adapted to different local circumstances.

Memorandum by Sheffield City Council (SBR 34)

Sheffield City Council, with a population of over 500,000, is one of the largest local authorities in England. The Council has wide experience, and can evidence significant achievements, in regenerating the city in partnership with a range of stakeholders, including the local business community.

THE RATIONALE FOR INTRODUCTION OF A LOCAL BUSINESS RATE

The key points for us are:

— To reinforce links with the business community. Developing a good relationship with the business community, and showing that the Council demonstrably understands the role and needs of business, has been a key part of our approach to regeneration in the City. The stability that RPI-linked non-domestic rating has given business has been important. However, it is confusing to many businesses that they pay the tax to the Council, but the city does not derive any direct benefit: the accountability is unclear. Restoring some local link through a supplementary business rate would provide a clear basis for a broader dialogue with business about the investment needs of the city.

— The link to the Lyons Report’s idea of “place shaping” role for local authorities. There are two parts to this. The first links back to the previous point about having a basis for a constructive dialogue with a key stakeholder—local business—that is based on real resources. The second is that the “place shaping” role has to been backed up by more local flexibility in resources to start to reverse the over-reliance on central and ring fenced funding. Full relocalisation may not be on the agenda, but a supplementary rate would make a real difference both symbolically and in substance. We do but subscribe to the view that any change has to wait for a wider review of local government finance—this may mean there is no change.

— A supplementary rate could place a key role in providing much needed funds for infrastructure investment to support regeneration. Sheffield has been fortunate to receive significant funds from Objective One, RDA Single Pot and other sources. However, there has been and will continue to be (particularly with Objective one ending) a need for some pump priming or matched funding...
from the council, particularly for infrastructure investment. It could be linked to the use of prudential borrowing powers to give more flexibility still ie future rate revenues would be the basis for the borrowing to fund capital investment.

— A supplementary business rate would provide a better basis for councils to consider their role in supporting economic growth than the current LAGBI scheme. Whilst this provides some welcome funds for economic development, it is complex, difficult to predict and cannot provide a stable level of funding for long term financial planning. LAGBI could be reformed alongside a supplementary rate to improve to these shortcomings.

ACCOUNTABILITY AND APPROVAL MECHANISMS

As stated above, developing a good relationship with local business has been a cornerstone of our approach to regeneration. We agree that some form of accountability to business for a supplementary rate is essential. Indeed, as we set out above, we see this as crucial to deepening the dialogue with business and further improving their confidence in our ability to deliver. Full approval by all businesses is unrealistic and would be costly. We believe that existing Local Strategic Partnerships can provide a vehicle for accountability—strengthened by some more specific requirements on consultation. The consultation would obviously have to include something on what the rate income would be used for—for without this requiring formal ring-fencing. Reports back to the LSP on achievements against initial proposals would provide accountability on how the money was spent without ring-fencing.

Any centrally determined reporting requirements should not be overly prescriptive and stifle the development of good relationships locally. If local authorities are to be allowed to develop their “place shaping” role and access a supplementary rate (and are themselves to demonstrate that they are up to this challenge), then it is on their interests to ensure that business is on board.

IMPLEMENTATION ISSUES

As a single tier council, issues are more limited for us. Across all local authorities, NDR is a well administered tax with high collection rates. We do not believe that the implementation issues and costs are prohibitive and we believe that they are worth the wider gains.

THE IMPACT OF SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

Equalisation is an important part of the overall local government finance system. A supplementary rate needs to be viewed separately to this—having a distinct purpose supporting local councils in their role in promoting economic growth. Whilst there would be inequalities in the amounts that local councils could raise through a supplementary rate, the revenue would be marginal in overall terms, so the impact on overall equalisation would be limited. We do not therefore believe that implementing a rate needs to wait for wider reforms to improve equalization in rest of the local government finance system. Such a suggestion would only delay this important change. Also, any attempt to equalise the returns from the supplementary rate itself would undermine key elements of the rational set out for implementing it eg providing a direct local accountability to local business.

THE APPROPRIATE SCALE OF THE SUPPLEMENT

We would support an upper limit on the supplement, based on a number of pence rate poundage. This would provide comfort to business nationally. It could also be phased in to allow confidence to grow. Within this upper limit, local councils should be free to agree a rate with local stakeholders.

Memorandum by Nottingham City Council (SBR 35)

1. THE RATIONALE FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE (SBR)

I recognise the clear need to carefully plan and communicate the reasons for levying a SBR. Specific use of the resulting funds would need to be identified evaluated and clearly published. This would be within a general policy of targeting funding at areas of the city where business growth is perceived to a key priority, correcting imbalances in terms of local employment prospects and related needs.
2. Accountability and Approval Mechanisms for the Introduction of a SBR at a Local Level—The Role of Business and the Wider Community

Careful consultation is the key—both in terms of informing and involving the business community and the wider population. Nottingham City Council has established a process which will involve existing public agencies, politicians, representatives of target groups and local regeneration partnerships. The need to improve and extend communication to representatives of the different business sectors is recognised.

3. The Impact of a SBR on Equalisation

I would expect that the SBR would not impact on the equalisation debate.

4. The Appropriate Scale of the Supplement/the Threshold for Payments

It is difficult to offer a comment at this stage. Nottingham City Council would be committed to wide ranging consultation and planning before any proposal was put forward. General principles would be worked through beforehand, including the ability of each sector of the local business community to absorb further charges and the support of that community for an involvement in business regeneration initiatives. I do recognise that it would be difficult to obtain a consensus and work with the full agreement of all stakeholders.

Memorandum by Richmondshire District Council (SBR 36)

Richmondshire District has one of the smallest populations of any local authority, but covers one of the largest geographical areas. At 509 square miles it is actually larger than four English Counties, but within its boundary live only 50,700 people (2004 mid year estimate). Richmondshire is therefore one of the most sparsely populated District Councils in the country, its boundaries stretching from the Vale of York in the east to Cumbria in the west.

Predominantly rural in character, a large part is situated in the Yorkshire Dales National Park. It encompasses some of England’s most unspoilt and beautiful countryside and includes much of the renowned Yorkshire Dales, with some of the finest scenery to be found in the District’s main dales of Wensleydale and Swaledale, which are perhaps the best known of the 26 Dales in the District.

There are two main arterial roads, the A1 North/South and the A66 East/West five miles from Richmond, giving easy access to many parts of the country. The eastern part of Richmondshire lies within the Vale of Mowbray and is similar in character to the adjoining area of Hambleton. Richmond is the largest town in the District and Catterick Garrison are the main centres and serve a wide hinterland. Catterick Garrison is home to the largest British army garrison in the world and it is estimated that the total military related population is 17,500 people. The role of the latter is set to increase in importance, with the proposed growth of the Army garrison likely to support a widening of its services. Both of these centres have strong social and economic links with the Tees Valley and somewhat weaker links with the regional and sub-regional centres in the south.

The remainder of the District is made up of the upland areas of the Yorkshire Dales National Park. The landscapes and settlements here are of national and international importance and the area has a strong environmental, cultural and heritage base which underpins its vital tourism sector.

Overall Richmondshire is seen as a relatively prosperous area with higher than average educational achievement and relatively low unemployment levels of 1.2%. However, whilst unemployment across the district is low, there are areas of the District where high unemployment remains a concern. Richmondshire’s economy is still largely reliant upon low paid, seasonal farming and tourism employment and average wage levels are below the national and regional averages. In contrast to the army garrison at Catterick, the majority of businesses spread throughout the District are small and medium sized enterprises that employ less than 250 people.

In addition, there are identified pockets of considerable disadvantage with parts of Richmondshire falling into the country’s worst 30% of wards for income and employment, education and child poverty, whilst the nature of the District, its size and, in some areas, sparsity of population present challenges to providing quality services with many communities among the 10% most deprived for access to services.

General Information Regarding Local Taxation

— Richmondshire DC is the billing authority for both Council Tax and National Non-Domestic Rates within it’s area.
— Richmondshire currently has 21,500 Banded Council Tax Properties and 2,300 Business Rated Properties.
— Of those 2,300 Business Rated Properties a great majority are small businesses that are family run.
— The only major conurbation of Business Properties is centred in and around the market town of Richmond. The remaining businesses are sparsely spread throughout the District.
— Approximately 500 properties currently enjoy Small Business Rate Relief.

THE RATIONALE FOR INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

— To give back an element of Local Accountability by Councils to Businesses.
— To be able to make businesses themselves more accountable to the welfare of a local area.
— To enable projects of a local nature to be introduced thus improving that area for both businesses and members of the public.

APPROVAL MECHANISMS

— Will this act in the same way as a BID ie will ratepayers be required to vote in favour of any supplementary charge.
— Will the supplementary charge effect all of the Business ratepayers or will it be kept to an immediate area that will benefit the most from any charge of this nature.
— The need to liaise with and take input from local Business forums, Parish and Town Councils. Also other agencies such as Yorkshire Dales National Park.

CONSIDERATION/IMPLEMENTATION ISSUES

— Decisions should be taken at the lowest tier of a two-tier authority and any monies received should be retained at that level. Monies should then be paid, for instance, to the County Council for any specific projects that have a direct impact on services administered by the first tier authority.
— The additional cost and time in setting up and administering a Supplementary Rate. In small Councils will this cost outweigh the additional money collected?
— Will the billing and collection of the Supplementary Charge fall within the current regulations or will it be collected outside of the normal National Non-Domestic Rate? If collected outside, who will administer it and how?
— The impact on Budgets in respect of Discretionary Rate Relief if the Supplementary Charge was to be added to all Business Properties!
— Would empty premises be liable for the charge? If yes would they pay the full rate or a proportion thereof?
— Would MOD properties be involved? (Major impact in Richmondshire as £3.9 million of a total rateable value of £25.6 million is MOD related).
— Will empty, exempt properties pay?
— Would it be a one-off annual charge or would it span more than one year.

APPROPRIATE SCALE OF SUPPLEMENT

— Limit of supplement could be set in accordance with Council Tax capping levels.
— Could be in accordance with the inflationary increase in the level of the Non-Domestic Rate Multiplier.
— If based on rateable value will the supplement increase/decrease as Rateable Value changes or will the charge be set as at 1 April as a static amount?

THRESHOLDS/SMALL BUSINESSES

— Provided the supplement is to be retained at a local level all Businesses should be required to pay (as previously mentioned consideration must be given to those Business Properties that are non-profit making and enjoy an element of either/or Mandatory/Discretionary Rate Relief).
Memorandum by The Special Interest Group of Municipal Authorities (SIGOMA) (SBR 37)

1. SIGOMA

1.1 SIGOMA, the Special Interest Group of Municipal Authorities, is a network of 45 local authorities representing large towns and cities in the northern, midland and south coast regions of England. SIGOMAs work is led by locally elected members supported by a group of council finance directors and informed by a network of local government finance practitioners in each of our member authorities.

2. Summary

2.1 The proposal to establish a supplementary business rate comes at a very challenging time for the wider local government funding system, with the Government unwilling to address long term issues like council tax revaluation and council tax bands, as well as damping changes to the distribution of mainstream funding so that resources are poorly targeted.

2.2 There is some merit in the proposal, but we are concerned that a supplementary business rate could be used to by-pass these structural problems and fill holes in council budgets, rather than invest in growth.

2.3 For local authorities to be able to manage this situation properly, we would like to see supplementary business rates accompanied by parallel reforms to:

— Ensure that mainstream funding systems operate more efficiently, in particularly damping arrangements are removed in key areas like social services.
— The LABGI scheme is reformed and placed on a longer term footing so that it acts as an incentive to areas with a lower business tax base.
— There are clear controls in place to stop areas with a very large business tax base from subsidising council tax bills.

2.4 Without these changes, the proposals will be seriously compromised—for example, SIGOMA areas would have to set a 2.2 pence supplementary business rate just to make up for the funding shortfall of £227 million that we now lose through social services damping.

3. Context

3.1 The proposal to establish a supplementary business rate with some form of discretion for local authorities comes at a very challenging time for the wider local government funding system and this proposal needs to be understood in this larger context.

3.2 SIGOMA has supported Sir Michael Lyons’ Inquiry into the roles and funding of local government since its inception, and welcomed the final report published in March this year. However, we have been disappointed with the Government’s response to many of the key proposals in the report, specifically on the reform of local government funding. In particularly, the Government’s immediate response to Lyons, in the Budget report, stated that it:

— will not remove council tax capping powers over local authorities and continue to cap if necessary, undermining the relationship between local and central government as well as the discretion and accountability of local councils;
— remains committed to not implementing revaluation for council tax in the lifetime of this parliament, meaning that council tax levels are based on information more than 17 years out of date and do not reflect the current patterns of property values across the country; and
— does not see it as feasible to change the banding structure of council tax, in the absence of wider revaluation, meaning that council tax burden continues to fall unfairly upon less wealthy households.

3.3 In addition, SIGOMA is also working with the DCLG to illustrate the impacts of the Government’s decision to damp changes to mainstream local government funding formulae, specifically for social services. This damping regime means that mainstream resources are not being targeted effectively or fairly to the areas that need them. For social services alone, it means that SIGOMA local authorities lost around £250 million of grant in 2006–07 and are currently under-funded by £227 million for 2007–08.

3.4 Based upon these ongoing and systemic weaknesses in the local government finance system, one response from the local government sector may be to reject any marginal changes until the Government has moved to make the overall system operate more effectively and fairly. However, there is clearly some merit in the proposal for a supplementary business rate and we feel that it could be introduced successfully if the Government also moved to address the current weaknesses in the wider local government funding system.

3.5 In line with this approach, the following sections address the questions raised by the DCLG Committee so that the supplementary business rate may be made to work in SIGOMA areas.
4. RATIONALE FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

4.1 SIGOMA supports the general analysis presented in the Lyons report and the justification it provides for establishing a new supplementary business rate set by local authorities within some form of national framework. In particular, we feel that the proposal for a supplementary business rate is pertinent when:

— Local authorities already have some, albeit limited, discretion on local business contributions with the powers to establish a Business Improvement District (BID) and to grant relief from business rates to charities and for hardship.

— Business rates have been falling as a proportion of local government spending, from about 29% in 1996 to 20% today, placing a greater burden on council tax payers.

— There is greater understanding of the need for local authorities to lead local economic development through strategic investment in new infrastructure, redevelopment and local services to nurture growth.

— The Corporation of London already has the power to raise a supplement on business rates, in consultation with local businesses, which it has used to generate resources to invest in its own priorities such as additional security.

4.2 BIDs have limitations. They are generally shorter term and limited to individual projects or sub areas within an authority, so greater discretion is needed to provide additional funding on a wider scale. A supplementary business rate would help provide this. There is also a general belief that businesses would be prepared to pay a fair price for additional quality and efficient services and so contribute to a supplementary rate. The success of BIDs in many areas has illustrated this.

4.3 However, given the failings of the current local government funding system (set out above) and the Government’s inability to address these, we are concerned about introducing a supplementary business rate at the current time. In particularly, we feel that the supplementary business rate may be interpreted by some Government departments and local authorities as a way of by-passing the structural problems with the wider funding system, enabling some councils to raise money to deal with the funding challenges that these problems cause. The use of the supplementary business rate to make up for the failings of the wider funding system would undermine the principle of equalisation that is at the heart of local government funding as well as the relationship between local councils and their business partners, diluting the potential impact on economic development and regeneration that they are designed to address.

4.4 As such, we recommend below that weaknesses in mainstream funding needs to be addressed alongside any new supplementary business rate, as well as some measures to ensure that the supplementary rate is not used to cross-subsidise council tax.

5. ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS IN THE WIDER COMMUNITY

5.1 The introduction of a supplementary rate would place a duty on local authorities to make transparent, accountable and widely supported decisions to vary their local business rate. At the local level, the development of local strategic partnerships in all major towns and cities over the last six to seven years has made it possible for councils to take a stronger community leadership role and make difficult decisions in this way. LSPs are the most suitable forum in which the proposal for a supplementary business rate could be discussed and developed, and are also a good mechanism for holding local councils to account over the way that the supplementary business rate is implemented and monies are used.

5.2 One of the key challenges at the local level will be for local councils and LSPs to show leadership on these issues, setting out a clear case for the use of a supplementary business rate as well as communicating how it will be used and the impact that it is having. There may also be some cases where local partners choose to ring-fence the proceeds from the supplementary rate for particular projects, to create greater confidence and ensure accountability. However, local authorities need to have the discretion to make this decision locally and determine how the proceeds can best be utilised. The importance of local government services to business success and economic growth is well understood in LSPs and will be the basis for making the case for a supplementary rate.

6. CONSIDERATION OF IMPLEMENTATION ISSUES, INCLUDING THE IMPACT ON LOCAL AUTHORITY TAX BILLS

6.1 The ability to raise, and determine the level of, a rate will depend on the economic stability of the area. Raising and collecting a supplementary rate will create additional administrative expenses such as in staffing, technology, changes to current software systems and general collection costs. This could have an impact on the viability of raising an additional charge and, given the very different tax bases in different local authority areas, suggests that the rate will need to be carefully set in each local area (see below).

6.2 As the Lyons report argues, ultimately the levying of supplementary rates could be borne by property owners in the shape of lower rental from their properties. Over time, lower rental values will affect the Rateable Values of property in an area and reduced property values will then impact on the potential for LABGI (Local Authority Business Growth Incentive Scheme) gains in a local area.
6.3 It is also important to note that business rates are a more significant tax on business property than comparable taxes in most other European countries. Increases to the level of business rates need to relate to the wider tax burden on businesses and the Treasury will be required to assure business leaders that that supplementary business rates at the local level are offset by other tax burdens at the national level.

6.4 Overall, it will be important for all revenues from a supplementary rate to be retained locally in order to provide an incentive and enough local business support to raise the charge.

7. THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION

7.1 SIGOMA has always argued that equalisation is a core principle for the wider local government funding system. The National Non Domestic Rates pooling arrangements provide for rates to be equalised through centrally distributed grants. However, a supplementary business rate needs to be seen as a quite separate element of the system, the main aim of which is to provide an incentive to local authorities to support and invest in economic growth, as well as provide some of the finance to be able to do this. As such, our understanding of the proposal is that it will not contribute to equalisation and the national pooling system.

7.2 In this case, it is important to understand the very different potential to implement a supplementary business rate in different local areas. Given the disparities between local and regional economies across the country, there is clearly a much greater potential for the supplementary business rate to be significant in larger cities, which have a much larger tax base of local business, as well as in the south east and eastern regions where economic growth has been stronger. The table below illustrates this by showing the rateable values across a number of different local authorities and the additional funding gained from a 1 pence rise in the multiplier.

<table>
<thead>
<tr>
<th>Selected top tier authority areas</th>
<th>Total RV 2005* (£million)</th>
<th>Extra £million from 1p supplement**</th>
<th>Extra £million from 4p supplement**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rotherham</td>
<td>152</td>
<td>1.52</td>
<td>6.08</td>
</tr>
<tr>
<td>Derby</td>
<td>179</td>
<td>1.79</td>
<td>7.16</td>
</tr>
<tr>
<td>LB of Bromley</td>
<td>195</td>
<td>1.95</td>
<td>7.82</td>
</tr>
<tr>
<td>Newcastle</td>
<td>309</td>
<td>3.09</td>
<td>12.38</td>
</tr>
<tr>
<td>Kensington &amp; Chelsea</td>
<td>502</td>
<td>5.02</td>
<td>20.07</td>
</tr>
<tr>
<td>Leeds</td>
<td>774</td>
<td>7.74</td>
<td>30.98</td>
</tr>
<tr>
<td>Birmingham</td>
<td>948</td>
<td>9.48</td>
<td>37.91</td>
</tr>
<tr>
<td>Westminster</td>
<td>2,641</td>
<td>26.41</td>
<td>105.64</td>
</tr>
</tbody>
</table>

* taken from VOA rating lists for 2005 www.voa.gov.uk
** calculated on RV without any adjustments for reliefs

7.3 Given this reality, there is a potential mis-match between areas that can raise a significant amount of funding from the supplementary business rate and areas that need the investment in infrastructure to strengthen the local economy. This is a point made by London Councils for the London region, but is also applicable to the wider national economy.

7.4 For local authorities to be able to manage this situation effectively, we would argue strongly that the implementation of a supplementary business rate needs to be accompanied by a three parallel reforms to local government finance:

— Firstly, a more serious effort from the Government to ensure that the mainstream local government funding system operates more efficiently and is fit for purpose. Equalisation is a key aim of the system and so undermined when the system fails to operate effectively. For example, this means removing the current damping applied to key local service areas like social services so that the system is allowed to operate effectively, as well as a proper timetable for revaluing domestic properties for council tax so that councils have an up to date and fair base for raising local revenue.

— Secondly, greater thought is given to how areas without a large business tax base, or with less robust local economies, can be incentivised and rewarded for successful economic growth. This may be by placing the current LAGBI scheme on a longer term footing and ensuring that it is more transparent so local authorities have greater confidence in its operation.

— Thirdly, with the potential to raise such large sums in some local areas, there must be clear controls in place to ensure that these are not used to subsidise council tax rates. Although the agreement with business partners on a supplementary rate at the local level will mitigate against council tax subsidies, there is also a point of principal that has to be guarded against.

22 See SIGOMA Profile for analysis of disparities between SIGOMA areas and other regions.
8. **The Appropriate Scale of the Supplement**

8.1 There will be a need to strike a balance between providing sufficient flexibility to enable local authorities to make a real difference to local investment, and ensure that tax rates remain within acceptable limits at the macro economic scale. Current annual rate increases, through use of the PRI cap, provide stability which is essential for businesses in their financial planning. The scale of a supplementary rate should provide similar predictability to ensure businesses do not experience large unplanned increases.

8.2 It is estimated that a one pence supplement across England would raise something over £400 million each year, assuming no impact from the higher tax rate on rateable values. A levy based on penny supplements would provide a uniform increase which would provide businesses with some degree of predictability. However, our calculations in the table above show the very different amounts of money that different local areas will be able to raise from a 1 penny increase. As such, we would support the introduction of an upper limit for the business rate supplement of around 4 pence, within which individual councils are left to set their local rate, which would be shaped by the strength of the local economy and the types of projects that would be funded.

8.3 Finally we also need to understand the context of these proposals and the wider government finance system. As noted above, SIGOMA areas currently see some £227 million of social services funding being lost by damping. We calculate that a supplementary business rate of around 2.2p will be required in SIGOMA areas as a whole just to make up for this shortfall in the current financial year. Clearly this type of budgetary problems in SIGOMA areas is a barrier to wider spending on economic growth and infrastructure. This underlines the need for supplementary rates to be introduced in parallel with reforms to the mainstream system.

9. **The Threshold for Payments and Whether Small Businesses Should Pay**

9.1 The question as to whether small businesses should receive any discount or exemption from a business rates supplement requires serious consideration to ensure that the benefits presented by the recent changes to charges are not lost, but that the system remains as simple and transparent as possible.

9.2 Small business relief has provided a valuable contribution to reducing the rates burden on small businesses. Levying a supplementary rate would proportionally impact more on smaller businesses than larger businesses. Figures suggest that the smallest 90 per cent of properties only represent a little over 30% of rateable value, so a discount or exemption for smaller businesses would not in most places substantially reduce the yield from a supplement.

9.3 However, larger businesses may consider this unfair as they would effectively have to subsidise smaller businesses. Different local areas are also structured very differently, with more or less reliance on smaller businesses as a proportion of the wider local economy. In many former industrial areas, the demise of heavy industry has meant the loss of larger businesses and the more recent growth of many different, often smaller, enterprises.

9.4 As such, we would like to see individual local authorities deciding whether or not to apply a threshold for small businesses, based upon their knowledge of the local economy and its make up. This would also consider the need to keep any supplementary rate simple and clearly understandable for local partners.

Memorandum by Worcestershire County Council (SBR 38)

1. **The Rationale for Introduction of a Supplementary Business Rate**

Answer below along with answer to Q2.

2. **Accountability and Approval Mechanisms for the Introduction of a Supplementary Business Rate at a Local Level—The Role of Business and the Wider Community**

1 and 2 answer: It would provide additional flexibility and should benefit the local community and businesses involved.

Any infrastructure will benefit current and future businesses and have an effect on the whole county, as it would be deemed a more prosperous place to live.

However, meetings and consultation would be necessary between businesses and local communities, with a vote if appropriate in the local situation.
3. **Consideration of Implementation Issues, Including the Impact on Local Authority Tax Bills and Decision-making in Two-tier Local Authority Areas**

Local Authority premises as well as other public sector premises will be subject to the SBR and this will have to be taken into account by the Local Authority when budgets are set.

The SBR system will be easier in unitaries than in 2 tier areas. In order to overcome the problem of many SBR’s Sir Michael Lyons suggests that only upper tier authorities should levy supplements, with collaboration of the districts in two-tier areas. This would seem the only practical solution, however, agreement with all parties may be difficult to achieve.

4. **The Impact of a Supplementary Business Rate on Equalisation**

The SBR raised would need to be retained locally as suggested by Sir Michael Lyons. This would also be a transparent system and businesses paying SBR should be able to see what their money is paying for.

If the extra raised through a SBR is taken into account through the NNDR or RSG then it is lost from the local area and the area would only gain if the same proportion was raised elsewhere and put back into the system.

5. **The Appropriate Scale of the Supplement**

Initially a low supplement should be levied. Once the business community has confidence and trust in the SBR system this may be increased in order to fund bigger projects for the good of the future economic prosperity of the area.

6. **The Threshold for Payments and Whether Small Businesses Should be Required to Pay**

Whether small businesses pay all or a proportion of SBR should be decided at a local level.

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**Memrandum by TESCO (SBR 39)**

**Summary**

1. We welcome this opportunity to submit evidence to the Committee’s inquiry into “Local Government Finance: Supplementary Business Rate” and to share our views on the proposal put forward by Sir Michael in his recent report on local government to introduce a supplementary business rate.

2. In his report Sir Michael made clear that supplements to the business rate should be local, transparent, used for new infrastructure projects and be agreed with local businesses. However we believe that local supplements could create quite the opposite situation; an opaque system with poor accountability and little effective input from the business community.

3. Specifically we believe that:
   - Supplementary rates are not the best way of financing new local investments as they are likely to suffer from poor accountability.
   - Supplements have similar problems to local business rates. A supplementary rate is a tax based on the rateable value of local commercial property. Given that there is a huge variation in the rateable values across the country, local authorities would need to levy considerably different supplements to finance projects of the same size.
   - Giving supplementary powers to upper tier authorities contradicts the principle of supplements being local, both in the decision to levy them and in the decision about how they are to be spent.
   - Supplementary rates are likely to create economic distortions at the borders of local authorities, as businesses would have an incentive to relocate to the local authority with a lower supplementary rate. This problem would be exacerbated on the outskirts of Greater London if a single London-wide supplement is set for all London boroughs.
   - Government should further explore other existing mechanisms, for example Business Improvement Districts (BIDs), which have the potential to provide greater flexibility for local communities to invest in new projects as well as accountability to business taxpayers.

4. More generally we believe that the existing business rates system is flawed and that a local supplement would only act to compound these flaws.

5. The current system does not reflect the changing nature of businesses today, with the value of property no longer providing a reasonable indicator of profitability. The current system disproportionately impacts on those companies with a large property base, whilst requiring companies such as mobile phone and broadband operators, internet traders and power companies to make only small contributions.
6. It is clear that retailers, with relatively low margins and a relatively high use of property, fare the worst, consistently seeing the level of taxation increase well above inflation.

7. We therefore believe that business rates should be reformed to better reflect today’s priorities, and today’s businesses.

8. In particular we believe that the way in which businesses are assessed should be reformed to ensure a fairer spread of tax liability across business sectors. This might include changing the valuation methodology for specific property assets or looking at other tax mechanisms for the new economy, for example subscriber numbers.

9. We also believe that business rate relief should be used to encourage investment in our most deprived communities and in energy efficiency measures and green technologies that will help tackle climate change. We hope that the forthcoming review of the reliefs and exemptions that apply to business rates by the Department for Communities and Local Government—also recommended by Sir Michael—will take forward these ideas.

10. In the remainder of this submission, we discuss some specific concerns about the concept of supplementary rates.

Supplements Suffer from the Same Problems as Local Business Rates

11. Supplementary rates, if introduced, would give local authorities a power to levy a discretionary supplement on top of the national business rate.

12. This is, in essence, equivalent to a local tax and, therefore, is likely to face the same problems as local business taxes in general.

13. The Lyons report recognised that there is a huge disparity in rateable value of commercial properties in different parts of the country and that “the amount that would be raised by individual authorities would vary substantially depending on the size of the authority and the number and value of properties in the area.” While Kent and Surrey would raise £10 million per annum from a 1p supplement, Middlesbrough and Herefordshire would raise only £1 million.

14. This clearly poses an equity problem as different local authorities would need to levy considerably different supplements to finance projects of the same size. Taxes with the appropriate level of equalisation can overcome this problem, while supplements cannot.

Geography of Supplements

15. The Lyons report also addresses the issue over which level of local government supplementary rates should be set. While it is recognised that “a supplement could in theory be levied at any tier of local government” the report proposes to give supplementary powers to upper tier authorities in order to reduce complexity and to keep the number of different possible supplements as low as possible.

16. An unnecessary proliferation of different supplements is clearly not desirable. However, supplementary rates should be set at as disaggregated a level as possible since that would allow both the raising and spending of money to be more finely tuned to local circumstances. Upper tier authorities appear to be too large for this purpose. Indeed, applying the same supplement in all parts of an upper tier authority, such as Kent for example, would undoubtedly involve some form of redistribution, ie some parts of Kent would benefit more than others, while all businesses will pay the supplement.

17. A decision regarding local supplements could be made at the same disaggregated level as BIDs. This increases transparency and improves accountability.

Supplementary Rates May Create Economic Distortions

18. Another issue, which is related to the geography of local supplements, is that economic distortions are likely to arise on the borders of supplement areas. More specifically, businesses located on the border between two local authorities may have an incentive to relocate to the local authority with a lower supplement. This issue, although common for all local taxes, may be particularly exacerbated in areas with a weak link between taxes and benefits.

19. It may be particularly relevant to businesses on the outskirts of Greater London if, as the Lyons report proposes, a single London-wide supplement is set for all London boroughs. Over time, businesses at the border of the Greater London area may move to the neighbouring local authority (or more likely new businesses will locate there if the supplement there is lower or the link between taxes and benefits is more transparent. Such an outcome is, clearly, not desirable.

23 Lyons Inquiry into Local Government, para 8.48, page 297.
24 Lyons Inquiry into Local Government, para 8.61, page 301.
20. This example demonstrates once again that the introduction of a supplementary rate may cause more problems than have been envisaged in the report. Indeed, the risks of the proposed system are so concerning that a different approach is required.

Memorandum by Ashford Borough Council (SBR 40)

INTRODUCTION
1. Ashford Borough Council welcomes this opportunity to provide its views to the Committee on this important issue.

LOCAL CONTEXT
2. Ashford Borough Council is a district council operating in a ‘two-tier’ system of local government in Kent. The Borough is the largest in size within Kent.

3. Significantly, in 2002 Ashford was designated as one the Government’s four Sustainable Communities Growth Areas. This growth is focused on the town of Ashford. Following agreement reached between the Council, its community, our public and private sector partners and the Government, growth targets of 31,000 additional homes and 28,000 additional jobs were set for the period 2001–31. These are substantial and challenging targets. An informal partnership (the Ashford Future Partnership, chaired by the Borough Council) has the responsibility for co-ordinating the development and delivery of plans.

4. Access to the necessary funding, both capital and revenue, is a substantial issue and constraint. The infrastructure bill amounts to circa £2 billion, and currently without new forms of funding and access to greater shares of current funding streams there is a substantial funding gap. Also revenue pressures from the relatively rapid growth in our population (+2% per annum in recent years and expected to rise in future years) places significant demands on the public sector. This important aspect is under-appreciated in funding processes as these tend to be more focused on infrastructure delivery.

5. The Council’s revenue funding is particularly constrained. With gross and net revenue budgets of £70 million and £14 million respectively, these are constrained by external pressures, including inflationary impacts, a government formula grant that provides only the minimum increase for the Council as a ‘floor’ authority, and the council tax regime itself. The latter supports only 8% of the Council’s gross funding requirement (40% of net funding). With current funding regimes and an inability to significantly increase the proportion of revenue supported by council tax some of the benefits of this are negated by the grant system because it takes account of taxbase growth. Therefore at a time of continuing and substantial household and population growth the Borough Council has year-on-year a need to seriously cut back on its budget forecasts. This is placing a very substantial strain on the Council.

6. The Borough Council has made various representations to Government on these issues, including submitting evidence to the Treasury for its CSR 2007 Review and the Lyon’s Review. The thrust of our representations has consistently been that growth areas require substantial additional capital funding, along with the recognition that additional revenue support is also needed. It is therefore within this context that the Borough Council welcomes Sir Michael Lyons’ recommendation that local authorities have the flexibility to set a supplementary business rate.

7. This paper will now address the key issues being considered by the Committee.

The rationale for a supplementary business rate
8. The Council supports Sir Michael Lyons’ arguments that lead to the conclusion that local authorities should have this added flexibility. We recognise that the national non-domestic rate system is well established and understand the concerns relocalisation of the business rate causes for Government and business as a whole. We believe the current system of a national non-domestic rate has however diluted the linkages between local business and local authorities. For reasons of local and sub-regional economic development the Borough Council remains active, however, in its engagement with local business representatives, and much has been achieved within the limited capacity and resources available to the Council.

9. This Council was particularly supportive of the Government’s move in introducing the Local Authority Business Growth Incentive Scheme (LABGI). We regarded this scheme as a positive step towards rewarding and incentivising local authority economic development effort. Unfortunately, due to the parameters within the LABGI scheme this Council has not yet benefited, despite our achievements in growing our business rate base. We have also closely observed those places where Business Improvement Districts have been established as the Council supports the principles of BID schemes.
10. Accordingly, to help re-energise the relationship between local authorities and the broader local business community and to provide a more direct and predictable source of funding for economic effort, the Council supports the added flexibility a supplementary business rate would bring. It must be pointed out that the Council sees a difference between a supplementary rate and the LABGI scheme and that if introduced it should not be at the expense of the other; indeed our hope is that the LABGI scheme will be retained in a modified and improved format.

Accountability and approval mechanisms

11. The principles for a local supplement as set out in the Lyons Inquiry Report (8.42-8.45) are supported by the Council. We see a local supplement as helping to re-energise the business-council relationship. In our view arrangements should be designed to generate greater inclusivity across the business sector both about a decision to levy a supplement and the use to be made of that supplement. We believe this means going beyond the conventional channels of depending on consultations with specific business groups to develop more broader-based business forums. Accordingly this Council suggests that Government should specify “good practice principles” as a guide for local authorities to consider when designing appropriate local accountability and approval mechanisms. These principles should cover, among other things, how best to achieve inclusivity, how best to achieve transparency and trust, how best to achieve sound balance in decision-making (the roles of business, and the roles of local authorities in two tier areas), and how best to achieve consensus. We agree with Sir Michael Lyons that business should have a strong voice and in our view parity with the public sector.

12. We also believe that longer term business planning must be a feature of the approval process. We therefore see a situation where, working in partnership, local authorities and business sector representatives develop a prospectus to justify a local supplement for a period of time; we would suggest no shorter than three years.

Implementation issues, including impacts in two-tier areas

13. Decision-making over a local business rate supplement in a two-tier area is likely to be one of the biggest issues of contention amongst authorities. Kent is a large county, with a large population and a large and widely spread business sector. Within Kent there is also a multiplicity of partnership structures that involve public and business sector coalition building that crosses local authority boundaries in various ways. We would therefore question whether Sir Michael Lyons’ desire for simplicity (with only upper tier councils having the ability to levy a supplement) would seriously compromise the principles espoused by Sir Michael Lyons of the supplement being local, transparent to local business communities, and capable of being agreed locally by a business community with a strong voice.

14. Sir Michael Lyons’ assumption is that there would be one supplementary business rate amount levied by each upper tier council. Our view is that achieving consensus and a fair and reasonable allocation of the supplement to local projects will be difficult to handle at this particular strategic level. Our view is that the supplement should be capable of being levied at a lower level, by District Councils working in partnership with the upper tier council and in clusters of Districts where this supports wider coalition working. Such an arrangement would have the ability of achieving more meaningful and productive local consensus, greater transparency in the relationship to decisions over the supplement and what it may be spent on, and greater local input and therefore ownership of the supplement. We accept that more local arrangements means a greater number of supplements than Sir Michael Lyons’ report recommends. However, we feel to compromise on important principles for the sake of achieving simplicity is potentially damaging to the genuine local responsibility and ownership the Lyons report encourages.

The impact of a supplementary business rate on equalisation

15. We agree with the Lyons report on this issue. We do not believe it would be reasonable to fetter the ability of councils to set local supplements by the prospect that a proportion of the supplement may be redistributed elsewhere. A local supplement should remain genuinely local.

The appropriate scale of the supplement, thresholds and small businesses

16. With our current gross rateable value (RV) of £97.8 million a 1 pence local supplement would yield just under £1 million. Provided the yield was invested locally within the Borough a supplement in the range of 1 pence to 4 pence would in our view, give the Council and its partners, including the business community, some real flexibility to make good progress with investment to help deliver the jobs target for this growth area. With 4% of our gross RV accounted for by small businesses (ie those in receipt of small business relief) we believe a discounted supplement should apply. The discount could have a prescribed minimum (say 50%), affording the ability locally to determine a higher alternative(s). We believe very small businesses (say with RVs of £1,000 or less) and registered charities (regardless of RV) should be exempted from the local supplement. Also it should not be overlooked that local authorities themselves pay business rates and
therefore would be liable to a supplement. Although it would not be right for local authorities to claim exemption from the supplement on this basis, it does need to be acknowledged that a supplement would create a pressure on budgets and therefore council tax. However, local authorities will have a choice in this matter, as they themselves will be party to a decision as to whether a supplement is levied.

**SUMMARY**

17. The Council welcomes this opportunity to express its views on this important matter. We are supportive of affording added flexibility to local authorities and the proposal for a local business rate supplement potentially would provide some significant and much needed additional resources. As a growth area the Council and its partners face a substantial funding gap that, unless removed will hamper our ability to deliver agreed jobs and housing growth targets. While a supplementary business rate is by no means the complete answer, nevertheless it would be very useful. We have reservations, however about Sir Michael Lyons’ proposal for the supplement to be levied only by upper tier councils. We believe this will not easily achieve the very principles the Lyons report espouses about a supplement being for local benefit, being transparent locally and being decided locally. We believe Districts, either working on their own or in clusters with their County Council would be a more appropriate platform for the localism the Lyons report encourages.

18. The Council is therefore pleased to have had this opportunity to comment and hopes that its views are helpful to the Committee.

**Memorandum by the Local Government Association (SBR 41)**

**SUPPLEMENTARY BUSINESS RATES**

1. The Local Government Association is pleased to submit written evidence to the CLG Select Committee on the question of the supplementary business rate, following the recommendation of the Final Report of Sir Michael Lyons’ Inquiry that local authorities be permitted to introduce a supplementary business rate.

**CONTEXT**

2. In our evidence to the Lyons Inquiry we supported the relocalisation of business rates, using a new pooling and equalisation model along the lines set out in a paper commissioned by the LGA from Tony Travers of the LSE. This would have required a minority of authorities to pay into a pool. We also called for an Independent Commission to be given an oversight of this arrangement. Individual authorities could have the freedom to set business rates either side of a core national rate to be recommended by the Commission within, say, a three percent envelope.

3. We felt that that model would give local authorities and local businesses the right mixture of incentives. We did not therefore at the time consider the merits or demerits of a supplementary business rate.

4. We recognise that the Lyons Inquiry recommended and the Government have accepted the continuation of the national non-domestic rate including the RPI cap. We are disappointed that Lyons did not recommend the relocalisation model proposed by the LGA.

5. Given that context, although we would rather that Lyons had opted for relocalisation in this way, we are pleased that the government has announced its intention to consult on a supplementary business rate. We look forward to this consultation soon, and believe that it needs to start in the current financial year, in line with the developmental approach to reform that Sir Michael recommended.

**RATIONALE FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE**

6. Sir Michael gives the following reasons for recommending a supplementary business rate:

   (a) It would give an element of local flexibility, which was supported by local business organisations in their evidence to the Inquiry.

   (b) It would require local authorities to make a transparent decision to vary their local rate, which could be subject to greater consultation and constraints than a general power to set tax rates.

   (c) It would avoid the need for complex changes to the system such as the equalisation arrangements.

   (d) It would be additional, with any new revenues available to spend on new infrastructure or projects rather than taken into account in government grant allocations.

25 Would it be possible to relocalise the NNDR?: the technicalities of achieving reform; at http://www.lga.gov.uk/Documents/Publication/relocalisetheNNDR.pdf
7. The LGA agrees with all these points, which is why we are happy that the government is consulting on a supplementary business rate. We also note that effective co-operation between local authorities and business will set the ground for consideration of other changes in the medium term, including full relocation of business rates.

ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

8. We note that Sir Michael considered two models for the approval of a supplementary business rate:
   (a) Giving all businesses liable to pay the supplement a vote; on the model of Business Improvement Districts.
   (b) A statutory consultation process, which would require authorities to consult on raising a supplement for a specific purpose.

9. On balance Sir Michael recommended the second, on the grounds that it would provide greater flexibility.

10. We agree with Sir Michael that authorities should not be forced to have a vote, although they should be able to if that is their wish and if it is appropriate to local circumstances. Although BIDs have worked well, and the LGA and member authorities have worked with both national and local business organisations to ensure their success, the same arguments as apply to BIDs do not necessarily apply to the supplementary business rate. It would also be necessary to decide as to whether a proposal would require a simple majority of business rate payers or also a majority of the relevant rateable value (BIDs require both) and to decide how to treat non-business NNDR payers. We take Sir Michael’s point that it might be harder to demonstrate immediate benefit to the area given the long term nature of the proposals.

11. It is also very important that the arrangements should sit within the developing mechanisms for local strategic partnerships (LSP), which may involve business representatives. As the British Chambers of Commerce said in their response to CLG’s evaluation of Local Strategic Partnerships, “There needs to be a recognition of the vital role that businesses play and why they should be involved in LSPs. Engagement should not simply be seen as a corporate social responsibility obligation on businesses, but an opportunity for genuine engagement in addressing the challenges faced in a local area that will bring mutual benefit, for example by improving the business environment as well as creating jobs and getting people into work.” A consultation process within the context of the local strategic partnership, with a clear statement of the use to which the supplementary business rate will be put will raise the profile of the LSP with the local business community and more widely.

12. We note that Sir Michael recommends that the supplementary business rate should be hypothecated. We think that this would run against the wider freedoms and flexibilities agenda which he supports. Resources for local area agreements, for example, are not ring fenced but are agreed within the context of supporting the locally agreed targets. A separate arrangement for agreeing proposals for the Supplementary Business Rate would place it outside this arrangement.

13. Rather than hypothecation, we would want to see the uses to which the SBR is to be put clearly stated in the consultation, but it should be made clear that it would not be ring-fenced in the event of changed plans and it would not require, for example, council auditors to sign off to say it had been used for these purposes and no other. It would be important for the local authority or authorities to give a report stating how the resources had been used. This would assist in transparency.

14. We note that Sir Michael and other commentators have stated that the supplementary business rate could be used for infrastructural investment; for example it could provide a revenue stream to support borrowing, which in turn could lever in private sector funds. The LGA would certainly support such imaginative uses, but we would not wish to see it restricted to these purposes. The important thing is that its uses should be agreed locally.

CONSIDERATION OF IMPLEMENTATION ISSUES—INCLUDING THE IMPACT ON LOCAL AUTHORITY TAX BILLS AND DECISION-MAKING IN TWO-TIER AREAS

15. Billing authorities would be the best placed to collect the supplementary business rate alongside the national business rate; it would not require any additional bureaucracy or administrative costs. In two tier areas this might involve the billing authority passing the resources to the county, but there are well established arrangements for collecting and paying across precepts for council taxes so this should not be a problem.

16. We take the point that some BIDs have alternative arrangements, and would like to see local flexibility. We take Sir Michael’s point that a supplementary business rate could have an effect on the local authority’s own costs as well of those of the public sector more generally and this would be an issue which the authority would consider in its decision on whether or not to make use of the supplementary business rate. As against the costs would be measured the benefits of any spending which was financed through the supplementary business rates.
17. As for decision making in two tier areas; we have stated above that we would wish to see the SBR build upon existing arrangements. That would argue strongly for it to sit alongside local strategic partnerships; which apply in county and unitary authority areas. In a two tier area, it would be important for both county and those districts involved in the LSP to be fully involved in the decision making process; even if (because the supplement applied across the entire county) it was ultimately up to the county to agree the supplement and to the districts as billing authorities to collect it.

18. In a unitary area or a metropolitan district; the billing authority is the one to which the arrangements would apply. We take Sir Michael’s point that in London boroughs and the GLA should be able to come to an agreement over the use of the supplement.

**IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION**

19. As we have stated above; if the national business rate was to be relocalised it would be necessary to put into place alternative equalisation arrangements. With a supplementary business rate, we do not think that the presence of a supplementary business rate should affect grant to authorities or the equalisation mechanism. It is of course the case that because of the different business taxbase, a different supplementary rate will raise different amounts in different areas. However, any attempt to equalise, for example, with an area with a higher taxbase paying over part of its supplement to one with a lower taxbase would run the risk of being seen as complicated and not transparent. This arrangement should be kept under review.

**THE APPROPRIATE SCALE OF THE SUPPLEMENT**

20. We note that Sir Michael says that the maximum should be around 4p in the £. In our evidence to Lyons we said that there should be limits to the extent to which authorities should be allowed to vary around a national rate; we recommended +/− 3p in the £.

21. We would not wish to see a statutory maximum; we think it should be left to local discretion.

**THE THRESHOLD FOR PAYMENTS AND SMALL BUSINESSES**

22. We note that small businesses pay a lower rate of national business rates (effectively subsidised by larger businesses, as the arrangements are set to enable the small business discount to be revenue neutral) and that some BIDs have arrangements where small businesses pay less. We would wish to encourage authorities to think about such arrangements in the design of the supplementary business rate, but would wish to see the decision left for local discretion.

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Memorandum by the Confederation of British Industry (CBI) (SBR 42)

1. The CBI is the UK’s leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. Member companies which influence all policy positions include: 80 of the FTSE 100, some 200,000 small and medium-sized firms; more than 20,000 manufacturers and over 150 sectoral associations. No other UK organization represents as many major employers, small and medium-sized firms or companies in the manufacturing or service sectors.

**THE RATIONALE FOR INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE**

2. The CBI welcomed Sir Michael Lyons’ vision of “place-shaping” and believes that councils should be more instrumental in supporting local economic development, for example through greater investment in local infrastructure. The report also recognised the importance of having a competitive local business tax regime and concluded that this was best delivered, as presently, via the uniform business rate.

3. The Lyons Report makes an important case for local authorities to have greater flexibility—a theme which the CBI supports. We also acknowledge that one way to achieve this flexibility would be through the power to levy a supplementary business rate. Sir Michael also notes that there would need to be limitations on such new powers in order to get business buy-in and greater trust in the relationship between businesses and councils. The CBI is clear that the most important safeguard on this power would be a business vote on whether each local proposal was acceptable to the businesses that would be affected by it.

4. While investment in local economic development projects, particularly transport infrastructure, is needed the CBI would urge Government not to consider this recommendation in isolation. The CBI is concerned that the overall corporate tax burden remains too high. The Chancellor’s decision to lower the rate of corporation tax at the last Budget was a step in the right direction but much of this reduction was offset by other adjustments to the business tax regime. An increase in business rates through a new levy
would be a further concern particularly alongside the proposed changes to business rates for empty property. The CBI therefore would urge Government to reduce the overall balance of businesses taxes before legislating for a supplementary business rate.

ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS AND THE WIDER COMMUNITY

5. Should councils be given the power to introduce a levy on the business rate its success would rest on genuine accountability and rigorous approval mechanisms. Sir Michael Lyons presented two options (voting and consultation) as approval mechanisms, opting for statutory consultation in his final recommendations to Government. However the CBI is clear that businesses must have a vote for the idea to be acceptable.

6. The Lyons Report emphasises the importance of building up trust between businesses and local authorities and the CBI shares Sir Michael’s desire for this to happen. Sir Michael argues that the power to levy a supplementary business rate, if used to fund projects which were genuinely intended to drive the local economy, is one way in which this trust could be built up. However, this can only be achieved if businesses feel that they genuinely are able to influence the decision-making process. In CBI’s view, consultation simply would not provide sufficient mandate for councils to levy a supplementary business rate nor would it demonstrate that affected businesses supported the proposed project. This could only be achieved through a vote.

7. One of the arguments put forward against the idea of a vote is that businesses would use it simply to block any proposal being promoted by local authorities. However, CBI does not believe this would be the case. Businesses asked to vote on a particular development project will make their judgement based on an assessment of the potential benefits set against the additional costs to them through the SBR. If the economic case for the project is strong enough, the vote will be positive. Indeed, experience with existing BIDs schemes is that this is exactly the way in which it works. Business feedback on BIDs has been very positive largely because they feel they have had a say in the process. Even where they had voted against a particular proposal which subsequently went ahead (because a majority was in favour), they were supportive because of the role they had played.

8. As Sir Michael recognises, unless the approval mechanisms for a SBR are right there is a danger that this power could see the relationship between businesses and councils deteriorate rather than improve. Since publication of the Lyons report, CBI has consulted with approximately 600 companies on 10 regional councils across England. Whilst there was an appreciation of some of the difficulties associated with a proposed vote, the overwhelming majority felt that anything less than a vote simply would be unacceptable.

9. Since a business vote would be so key to the principle of a supplementary rate CBI members have given some thought to the potential details of a voting mechanism with the conclusion that:

— Voting should be weighted according to rateable value.
— Members should have an opportunity to vote on the specific project plan rather than just the principle of a levy.
— There should be safeguards on re-voting so that if a vote failed it would be significantly amended before it is voted on again.
— The exact voting mechanisms should be spelt out in legislation so as to ensure continuity across all council areas.

10. The principle of voting to agree a business rate levy has already been established through the Business Improvement District (BID) model. The CBI therefore strongly recommends that the Government conducts a full review of Business Improvement Districts (BIDs) before taking this recommendation further. Useful lessons could be learnt from the business and local government experiences of BIDs particularly in terms of voting mechanisms and administration.

11. Management of projects that were approved by the business community, via a positive vote, would need to be both transparent and accountable in order to give confidence that projects would be delivered efficiently and effectively. The exact mechanisms would need to be considered carefully but as a principle the CBI would advocate significant business involvement in the running of specific projects eg business representation on any management boards.

CONSIDERATION OF IMPLEMENTATION ISSUES, INCLUDING THE IMPACT ON LOCAL AUTHORITY TAX BILLS AND DECISION-MAKING IN TWO-TIER LOCAL AUTHORITY AREAS

12. If the recommendation to allow supplementary business rates is taken forward business confidence would rely on transparent decision-making, genuine accountability and efficient delivery. These factors would be vital whether the projects were in unitary or two-tier local authority areas. It is worth noting that businesses could be wary of agreeing to a supplement in a two-tier authority if the administration costs were noticeably higher than under a unitary authority.
13. Clearly where potential projects had implications for two or more local authorities, perhaps at the level of city-region, and where regional authorities needed to be involved, implementation is likely to be more complex. It would therefore be important for Government to be clear, if taking forward this recommendation, whether the purpose was to fund local or regional projects and shape the proposals, including approval and accountability mechanisms, accordingly.

**THE IMPACT OF A SUPPLEMENTARY BUSINESS RATE ON EQUALISATION**

14. The case against the relocalisation of business rates was accepted in part because of the difficulties of equalisation: the differences in business rate revenue between councils would outweigh any increased incentive for councils to boost local businesses.

15. If revenue from supplementary rates was redistributed by central Government through the equalisation mechanism in the same way that standard business rates are shared out there would be a danger that the power was seen as an increase in business rates through the back door rather than a specific levy to fund local projects. The CBI therefore agrees with Lyons that revenue from any supplementary business rates should be retained locally—not redistributed—to avoid undermining the purpose of the proposed supplement.

16. In recognition of the greater flexibility this would give some councils over others (ie those with more businesses and therefore potentially higher revenue from a supplement) it would continue to be important for the Government to invest in those areas that had fewer businesses and therefore a lesser capacity to generate revenue through a supplement. Councils and central government would also need to consider the risk that a supplement could deter incoming businesses, particularly in regeneration areas.

**THE APPROPRIATE SCALE OF THE SUPPLEMENT**

17. The CBI agrees with Lyons that revenue from any supplementary rate must be entirely additional to existing local government funding and used exclusively on specific projects that were agreed with the relevant business community. The CBI recognises that in the future it would be increasingly difficult to know whether economic development projects would have been provided without a business supplement and therefore whether the supplement was truly ‘additional’. In order to avoid this scepticism it would be vital for all tiers of government to demonstrate that spending on economic development projects had at least kept pace with current investment.

18. Sir Michael Lyons recognised that businesses need certainty and predictability of their business rate liability and therefore recommended the idea of an upper limit or cap on supplementary business rates. The CBI agrees that a centrally-set cap must be implemented if businesses are to have confidence in councils to use this power effectively and efficiently. Where BIDs already exist the cap must include this revenue and the onus should be on councils to demonstrate the future benefits for businesses to offset the initial cost.

19. At the lower end of the range proposed by Sir Michael Lyons the experience of BIDs shows that for certain additional services businesses can be willing to pay a levy of 0.5-1%. At the other extreme the 4 pence supplement (effectively almost 10% increase on business rate bills) implemented in the Rugby BID is atypical and far higher than the vast majority of businesses would be willing to pay. The CBI therefore would urge Government not to use this example as a marker for the scale of supplementary rates.

20. Once further detail is known about the purpose of a supplement an appropriate cap should be set at the lower end of the range proposed in the Lyons Report in order to get the buy-in of the business community. It would then be the duty of councils to propose a levy which was acceptable to the local business community both in terms of scale and duration and appropriate for the scale of the project.

21. The CBI also believes that all parties who benefit from the project should share the cost. Where those parties include non-business rate payers councils should demonstrate how the cost burden is being shared fairly.

**THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY**

22. The CBI accepts the case for a threshold to prevent small businesses being unduly burdened by a new levy. However it should be noted that such measures can be distortionary and misleading since rateable value is not necessarily a good measure of ability to pay. A supplementary rate would represent an additional tax burden for all affected businesses.

23. Any such small business threshold would need to be carefully considered by Government taking into account differences in rateable values across the country as well as the need to provide all affected businesses with certainty and predictability of their business rate liability. Clearly only businesses that crossed the threshold would be eligible to vote on the proposals.
TIMESCALES

24. In terms of providing businesses with greater assurance about the parameters of a supplementary levy the CBI would advocate a centrally-set time limit on the duration of a supplement. This would have the advantage of giving greater certainty to businesses so they could plan for the additional cost. It would also provide greater assurance about the efficiency and effectiveness of delivery since the project would have to be delivered within that timescale.

25. As with the proposed rate cap it would be within the power of local authorities to set out in any proposals the appropriate duration of a supplement for a specific project which could be lower than the national limit.

26. In terms of providing assurance that a supplementary rate would not represent relocalisation through the back door Government should also consider introducing a “freeze” time to be implemented at the end of one project and before a new project could be proposed.

Memorandum by the British Property Federation (SBR 43)

We have read the Lyons report with interest and in particular the proposals for a supplementary business rate (SBR), summarised at the beginning of Chapter 8 of the report:

“To increase local flexibility and support the continued investment in infrastructure that both businesses and local authorities have called for, subject to detailed consultation with, and a strong voice for, the business community”.

While we do support the general thrust of the Lyons report in relation to improving fund-raising powers for local government for the specific purpose of enabling local government to bolster local economic growth and performance, we have significant reservations with both the desirability and practicality of the recommendation for a supplementary business rate.

SUMMARY KEY POINTS

— The British Property Federation supports enhanced fiscal powers for local authorities to enable them to raise funding for specified infrastructure projects, but disagrees that a supplementary rate alone is the most desirable option.

— A supplementary business rate would raise substantive funds only for a few local authorities and therefore would not benefit the vast majority.

— The supplementary business rate is a ‘blunt instrument’ that might be viewed by many affected businesses as contrary to their interests.

— To be accepted by a local business community, a supplementary rate will need substantial and appropriate checks and balances, possibly along the lines of the Business Improvements Districts model.

— The supplementary rate would upset the certainty and predictability of business rates that has become so prized by the business community and its investors.

— Alternative financing arrangements for local authorities such as Tax Increment Financing and better use of existing local authority borrowing powers are more suitable tools for the purposes of public infrastructure investment.

IMPROVING THE FINANCIAL POWERS OF LOCAL AUTHORITIES: SOME GENERAL COMMENTS

The BPF believes that there is great potential for the financial powers of local authorities to be enhanced. We agree this would help councils to play a greater role in enhancing the local economy. The introduction of a supplementary rate is, however, a blunt instrument that will impact all ratepayers without necessarily receiving their support or indeed providing additional benefits to all.

This would suggest that checks and balances should be introduced to protect the interests of ratepayers who otherwise may regard themselves as being unfairly levied. A supplementary rate will also undermine to a degree the benefits of certainty and predictability cherished by the business community and its investors. This may be a price worth paying if the benefits of a supplementary rate can be seen to overcome such concerns.

On the evidence presented within the Lyons inquiry as to how many councils may gain significant benefit from a supplementary rate alone, we are not convinced that this is the case. Indeed to achieve significant funding it appears to us that the supplementary rate will need to be coupled with tax increment financing in order to provide sufficient funds.
This will in turn require a long term view to be taken by both the local authorities and their ratepayers as to the economic benefits that a supplementary rate might achieve. This implies a change of culture among authorities to achieve better long term strategic economic planning and a commitment from politicians to long term tax and borrowing arrangements that will probably be controversial and, under current arrangements, perhaps difficult to achieve.

**Specific Comments on a Supplementary Rate**

*What should the supplement be used for?*

We agree that additional sources of local authority finance are needed but do not believe that a supplementary business rate is the best means of financing these. Where additional funds are raised, then they should be for specific, clearly defined purposes. The obvious need is infrastructure provision and we would support the use of, say, tax increment financing for this purpose.

Business Improvement Districts are of course an existing system of Supplementary Business Rate but they are limited vehicles in terms of the scope of ratepayers and geographical area affected and they are for very specific and limited purposes. Moreover the amount of money raised through BIDS is small and cannot make more than a small dent in the budget needed for enhancing local infrastructure.

*Will the supplement raise enough money?*

We believe that in order to be acceptable, a Supplementary Business Rate would be so small as to be ineffective in making a realistic contribution towards infrastructure needs. The Lyons report indeed identifies only around 20 local authorities (out of the 150 upper tier authorities it is suggested receive SBR powers) who might be able to achieve additional income of £5 million per year.

And this may well prove to be an over-estimate once the impact of relief for small businesses, hardship and transitional arrangements is factored in. This level of funding is unlikely to provide for significant infrastructure developments in most authority areas and coincidentally, almost certainly not in the local authority areas that can raise this level of funding from its supplementary rate.

Lyons appears to accept this and suggests the SBR may be best used to enable local authorities to borrow against the SBR revenue stream—in other words a form of Tax Increment Financing. The BPF believe this proposal offers greater merit than the supplement on its own.

*Would the money be used equitably?*

Equitable distribution will always be an issue for any rate based system but we do not believe this should stand in the way of a local authority being able to raise funds for those large projects that will benefit the whole borough/district.

On the whole, the business community would be likely to want to support a system which raised money for particular projects provided it did not impose a disproportionate burden on those very businesses it was in the long term trying to support. The property sector would prefer to see a system that allowed a local authority to benefit from the increased prosperity that development brings to an area—which would be likely in turn to make that local authority more welcoming of the development in the first place. Finding an up front way of tapping into that future wealth seems to offer a more attractive option than raising local taxes.

**Summary**

In summary, we believe the proposal for a supplementary business rate is the wrong way to go about raising extra finance in local authorities, except possibly in some very limited situations where there is a wealthy business rate tax base and a very specific project that the business community is prepared to buy into. We do not believe that it will raise enough money; it will break the benefits of certainty and predictability for business ratepayers; and it will need costly accountability procedures if it is to be accepted by the business community. There are better ways of funding infrastructure and we believe these should be explored more fully before resorting to a Supplementary Business Rate.

**About the BPF**

The British Property Federation is the voice of property in the UK, representing organisations owning, managing and investing in property. This includes a broad range of businesses comprising commercial property owners, financial institutions investing on behalf of life assurance and pension funds, corporate landlords, local private landlords, developers in the commercial, residential and mixed-use sectors, as well as all those professions that support the industry, such as law firms, surveyors and consultants.
The property industry is a vital component of a successful economy. As an industry, commercial property contributes 5.6% of UK GDP, which makes it larger than the financial services industry and combined with residential property, the sector employs 2 million people. In 2001 net investment in productive property was £45 billion—30% of total investment in the UK.

BPF members are key contributors to the economic and social well-being of the UK. Our commercial members provide the workspace for business and fund the regeneration of our towns and cities. Our residential members focus on the private rented sector, providing housing choice to meet the needs of a mobile workforce, a prerequisite for achieving higher growth in our economy. And our investor members use the performance of £250 billion worth of investment in property to fund pensions. Just over 20% of commercial property in the UK is held by UK-based pension and insurance funds, meaning that most people in the UK have a stake in our industry as pension fund members.

Memorandum by London First (SBR 44)

1. London First is a business membership organisation whose mission is to make London the best city in the world in which to do business. London First delivers its activities with the support of 300 of the capital’s major businesses, representing approximately a quarter of London’s GDP, from key sectors such as financial, professional services, property, ICT, creative industries, hospitality and retail. We also represent the interests of all of London’s higher education institutions as well as many of the further education colleges.

2. London First made a number of contributions to Sir Michael Lyons’ Inquiry into local government and we were pleased that his final report included a recommendation to give power to local authorities to raise a supplementary business rate to fund infrastructure improvements, subject to agreement from business. We are however concerned as to how these proposals will be implemented in practice and therefore welcome the Select Committee’s inquiry into supplementary business rates and appreciate the opportunity to contribute to the debate.

3. As with our original submissions, London First’s proposals have been framed with particular reference to local government in London. However we believe that they are applicable to local authorities across the country.

Rationale for a Supplementary Business Rate

4. Businesses are concerned about a possible return to local authority control of business rates because of their experience of large rises in the 1980s to fund increases in spending on which they had no voice. The current arrangements for payment of business rates provide two measures of comfort and certainty to business—the RPI cap and Treasury’s concern about overall levels of taxation and public spending. New arrangements should provide equivalent comfort and certainty. We therefore welcome Lyons’ recommendation that the RPI cap on the national level of business rates and the existing national arrangements for business rates should be retained at present.

5. Recent votes in favour of supplementary rates on behalf of Business Improvement Districts (BIDs) suggest that businesses are willing to contribute to improved local services provided that:
   — it is for a defined period;
   — they approve the purposes of the levy and see clear benefits; and
   — they are confident that the funds will be ring-fenced and used efficiently.

   The City of London has the power to determine the level of its Business Rate . . . Following consultation with business, it set a premium of 0.4 pence in the pound for 2006–07 raising £5.1 million, mainly for police and security. Its unique electoral arrangements mean that business has a vote. This creates a much greater incentive to take business issues seriously.

6. London First supports the objective of increasing the amount of revenue that local authorities raise themselves and reducing their dependence on Government grants:

7. to allow greater opportunities for raising and spending revenue at a local and London level; and

8. to involve the business contributors in the decisions about how and where that money is spent in such a way as to encourage increased local accountability and efficiency.

9. We welcome Lyons’ recommendation that local flexibility to set a supplement on the current national business rate should be introduced and his conclusion that in order for this new flexibility to be used efficiently and effectively, it is important that local authorities have appropriate powers to use the revenues to support borrowing.
IMPLEMENTATION

10. In order to avoid too big an initial impact and too heavy an administrative burden on businesses which have national coverage, such as utilities and retailers, the new arrangements should be phased in so they would apply to a fifth of authorities in the first year and progressively extended to the remainder. It can be applied to new development from the outset since the rent level should reflect the incidence of any SBR.

TWO TIER AUTHORITY AREAS

11. We proposed that in London a supplement could be levied by boroughs and by the Greater London Authority (GLA). Lyons however is concerned to minimise the number of supplements to make the system as simple as possible. He is also concerned about the big variation in the tax base between different parts of the city and the need for city-wide action on infrastructure projects. He therefore considers it would not be desirable for all powers over business rate supplements to rest solely with the boroughs and proposes an arrangement whereby a single, London-wide supplementary rate would be set through agreement between the GLA and the boroughs, and in consultation with the business community with a joint plan for the use of the revenues.

12. We believe however that it would be very difficult to achieve agreement between the GLA and the boroughs collectively on a programme to be funded in this way, particularly where they are in different political control. There would be a high risk of failure to agree on anything. If the authorities did succeed in reaching agreement, it would be likely to be based on a stronger emphasis on satisfying their respective aspirations than meeting the concerns of the business community, resulting in an over-inflated programme which would not command business support. Unless the approval process contained strong safeguards (see below) we are concerned that the views of business would be subordinated to political convenience.

13. The current system of business rates collection and distribution does not allow for a genuine linkage between payment of rates and the local services provided. Powers for individual boroughs to levy a supplementary rate on the basis of a business vote would help to overcome this disconnect. For these reasons we would prefer the boroughs each to have their own powers to levy a supplementary rate. The consequential issues for the approval process and equalisation are considered below.

ACCOUNTABILITY

14. We strongly support Lyons’ view that the proposed supplement is intended to contribute to greater flexibility for local communities—residents, businesses and their representatives—to invest in themselves and in the future and that it is not intended to provide greater powers for general taxation. It will be important that the supplementary rate should not simply be a way of shifting the cost of local services from residents to businesses. If businesses are to be persuaded to vote for a supplementary rate, they will need to be satisfied that the authority is providing a satisfactory baseline level of service and using its existing resources effectively.

15. We consider that those who pay the tax should have an effective voice in decisions on how much is raised and what it is spent on. Councils should be required to detail extra spending requirements and the funds ring-fenced through a separate fund with directors/trustees nominated by business; with a report published on the outcomes.

APPROVAL

16. Business is sceptical of consultation by authorities when in practice there is no leverage or redress. Our preference would be for a model very similar to that of a Business Improvement District (BID) ie where a private sector company implements the activity. That may not be practicable for borough-wide schemes, in which case we would like to see a majority vote by value and number in the same way as for BIDs. In these circumstances, while the voting would be similar to BIDs, the implementation would be by the local authority.

17. Lyons did not accept our proposal for BID style vote. He said it would be difficult to get support for projects with long term benefits, would complicate financing arrangements which involved other revenue streams, would be inconsistent with the accountability mechanisms for other taxes and would carry a high risk of abortive proposals. He therefore recommended a statutory consultation process.

18. We remain of the view that statutory consultation by itself does not provide a sufficient safeguard against business views being carefully considered—and ignored. We therefore maintain our view on the desirability of a BID style vote for borough proposals. We do not think this would lead to abortive votes. Experience with BIDs shows that pet projects which authorities have long had in their bottom drawers will stay there, while well-designed schemes addressing the real concerns of businesses and their communities have earned support.
19. We believe that the Mayor should be able to raise extra funds from business for exceptionally important projects which serve a far larger area than that in which they are based. We recognise however that majority support for a London wide supplement levied by the Mayor would be very difficult to achieve. It could be fatal to the ability to secure funding for major projects if they were constrained by the terms of a general power to levy a supplementary rate—particularly if this required agreement on a wider package of measures with the boroughs.

20. Projects of this kind are likely to be few and far between. Currently only Crossrail falls into this category and it is likely that the business contribution to it will exhaust the capacity of the London business community to make such contributions for some time to come. The funding package for any further project of this kind should be considered on its own merits and should have its own legislation.

**Impact on Equalisation**

21. We recognise that business rates help to support local government spending generally and that, given the wide disparity between authorities in their non-domestic rate base, the current arrangements for pooling business rates should continue. But we consider that this should not be applied to supplementary or incremental revenue. We therefore welcome Lyons' general conclusion that all of the revenues should remain local.

22. So far as London is concerned, however, as noted above, Lyons is concerned about the big variation in the tax base between different parts of the city and this is one of the reasons why he believes boroughs should not have the power to raise supplementary rates individually. However we believe there are positive advantages in boroughs having such a power. We do not consider that differences in the tax base are an obstacle to this. The need for authorities to raise supplementary revenue for purposes that business would support, for example enhancement of the public realm, is directly related to the extent of business activity in the area. It would in any case greatly weaken accountability and make it unlikely that businesses would vote for a supplementary levy if part of it was redistributed outside the area.

23. Local authorities should retain the rate income generated by new commercial development so that they have a strong incentive to grant planning consents. In London the additional revenue should be shared between the boroughs and the GLA. The Local Authorities Business Growth Incentives scheme is too complicated and delivers too little in most local authority areas to make much difference to the way in which local authorities behave. We accordingly welcome Lyons' conclusion that in the short term, the Government should simplify the scheme in order to provide sharper incentives and that reform should focus on providing transparency and predictability through reducing the emphasis on distributional objectives.

**Scale of the Supplement**

24. Local variations in tax rates should not distort business decisions (eg create incentives to relocate). They should therefore be subject to a cap—for example a 5% addition to rate bills.

25. We are pleased that Lyons has accepted our view that the proposal to introduce the supplement should include a clear timetable and that for a supplement to run beyond this period, the authority would need to gain new approval.

**Thresholds**

26. We support Lyons’ view that authorities should have a degree of flexibility over which sizes of business pay the levy. Similarly to BIDs, the liability to the levy could be varied to suit local circumstances, for example the rules on exclusions for smaller businesses. As with BIDs also it could be applied to part of a local authority area or possibly across parts of two areas eg where a local artery forms the boundary between them. It would be for authorities to frame proposals and to specify liability to the supplement—in terms of RV threshold or area—in a way that that would maximise support.

**Tax Base**

27. If SBR is introduced there will continue to be a concern amongst rateable occupiers that they are paying for benefits the financial value of which will, in many cases, benefit landlords and freehold owners. It would be useful to explore options for ensuring that part of the additional levy is borne by property interests other than the ratepayer. A model achieving this has been introduced for BIDs in Scotland and may be worth exploring in England and Wales.
MEMORANDUM FROM THE MAYOR'S OFFICE—GREATER LONDON AUTHORITY (SBR 45)

SUMMARY

This paper sets out the Mayor of London’s consideration of the supplementary business rate proposals put forward by Sir Michael Lyon’s recent inquiry into local government. The Mayor supports a single supplementary business rate in London. This should be set by the Mayor of London in consultation with boroughs, businesses and the wider community, and should be applied to strategic infrastructure investment that will support the capital’s long-term economic growth. Crossrail is the immediate prime candidate to be funded in part by a supplementary business rate. The size of the supplementary business rate, the thresholds to be applied and any exemptions or reliefs would need to be determined in due course and following consultation with businesses in London.

INTRODUCTION

1. London is successful and growing, challenging New York as the world’s leading international financial centre. The performance and specialisations of London complement those of the rest of the UK, both in terms of industry and people: when the UK grows, so does London and vice versa. However, London’s growth has put exceptional pressure on London’s infrastructure and these demands will only increase. The ability of London to retain its position as a leading world city in an increasingly competitive and global economy over the next 20 years will depend on its ability to continue to provide a location for internationally competitive firms, most notably in the financial and business sectors. London needs to find ways of funding the infrastructure the city needs now and in the future in order to meet the challenges of a growing economy and in order to sustain and develop London’s status as a world city.

RATIONAL FOR A SUPPLEMENTARY BUSINESS RATE

2. Against this background, the Mayor welcomes the Government’s proposal to introduce a power to set and collect a local supplement on the business rate collected in an area. The Mayor agrees that such a power is needed to provide local government the ability to raise revenues for new investments that are required by business. This is important in London where employment is forecast to grow by a further 450,000 jobs by 2016 and where London’s population is projected to grow by over one million over the next two decades— continual investment over a long time period will be necessary to support that growth.

3. Although the supplementary business rate (SBR) would be a limited tax, it would make a significant contribution to the economy in London, having both policy and fiscal advantages, by providing a secure revenue stream to finance prudential borrowing using existing powers provided for by Local Government Act 2003.

A LONDON-WIDE SBR

4. The Mayor agrees with the Lyons Inquiry that there be a single supplementary business rate for London. He also agrees that the rate should be used to support long-term infrastructure improvements. The Mayor should set this SBR in the same way that the national business rate is set by government. A single rate will enable the capital to address strategic investment priorities facing London’s businesses as a whole. A single rate would be transparent to all businesses in London and would be straightforward to implement.

5. The Mayor strongly believes that he should set the SBR following consultation with the 33 London local authorities as well as London business. He does not believe that it is practicable that he should reach agreement with all 33 local authorities in London. He is the directly elected Mayor whose responsibility is to make strategic decisions for the improvement of the whole capital rather than single boroughs. Having to provide specific benefits for 33 local authorities would be impractical, would not be transparent to all Londoners, would risk short-termism and agreement may be impossible to reach in any case. It is therefore much more appropriate for the Mayor to consult on his strategic proposals with London’s local authorities as part of determining the supplementary business rate.

6. The Mayor agrees with Sir Michael Lyons that only the upper tier authority should set the rate and that in London therefore only the Mayor should set a supplementary business rate. Boroughs should not set separate supplementary rates as well. He agrees with Sir Michael Lyons that having potentially an additional 33 business rates in London would be confusing for businesses. Instead, boroughs should still be able, as they can now, to propose BIDs to tackle local issues, supported where necessary by additional business rate levies.

7. Furthermore, the decision-making arrangements for making investments for economic development must reflect actual patterns of economic activity. Business activity within London is both extremely interconnected and highly concentrated. For example, 61% of people live in a different borough from the one in which they work and 30% of London’s workforce is concentrated in just 2% of its geographical area (the West End, City and Isle of Dogs). A London wide SBR is therefore more appropriate than separate supplements for all 33 local authorities.

EQUALISATION

8. The size of the business tax base across the London boroughs varies enormously and does not necessarily correlate to the places where infrastructure is required. Areas such as Westminster and the City of London have some of the most expensive business properties in the world, while areas of more deprived outer London boroughs such as Waltham Forest, Lewisham and Redbridge have some of the lowest tax bases in the country. A London-wide SBR will ensure equalisation across the capital, as Sir Michael Lyons recognises.27

9. As London generates additional wealth for the UK already, there is no need for further “equalisation” between London and the rest of the UK with regard to a supplementary business rate. On conservative assumptions, London’s net contribution to the national purse (ie taxes generated less public expenditure received) is estimated to have been between £1 billion and £8 billion in 2004–0528 and may have been between £6 billion and £20 billion.29

10. In practice, further equalisation between London and the UK would create additional complexity, would not be transparent to London rate-payers, and would go against the local flexibility that the supplementary rate is supposed to give.30

SIZE AND THRESHOLDS

11. The size of the supplement, the length of its application, and the arrangements for applying reliefs and thresholds should depend on the nature of the investments to be made, the expected beneficiaries and, as Lyons recommends, should be determined following consultation with business. The greatest flexibility possible should be granted under legislation to the local authority, in this case the GLA in consultation with the boroughs and businesses, to determine the size, period, thresholds and any reliefs with regard to the supplementary business rate.

12. It is predominantly large-scale business that will benefit from the significant infrastructure projects that the SBR will be invested in. Although the single SBR should apply across all of Greater London, there should be some consideration about differentiating the size of business that should pay the levy and setting thresholds for its payment.

13. The chart in Appendix 1 illustrates how much might be collected in London given various combinations of thresholds and sizes. The maps in Appendix 2 illustrate how the three different thresholds in Appendix 1 affect the geography of businesses that would be liable for the SBR.

PRACTICABLE ARRANGEMENTS FOR LONDON

An outline of the proposed process

14. For London we suggest the method for determining the SBR builds as far as possible on existing processes. Further more detailed consideration will be required to build an appropriate process but the following outlines our proposed approach.

15. The process to set the SBR would be similar to that for determining the GLA’s Capital Spending Plan and Borrowing Limits. The Mayor would make a draft proposal for an SBR, setting out the purposes for which the revenue collected would be raised and showing how this would support investment in line with his various strategies. He would then consult formally with London’s local authorities, representatives of businesses and the others referred to in the GLA Act, and would take a decision based on his assessment of the representations made.

16. It is important to recall the intention of the original GLA Act, which is to provide the Mayor with strong executive powers, within the prescribed and limited strategic areas of his remit, so that London can benefit from clear and highly accountable strategic decision-making.

27 “Comparing the revenues from a supplement on a per head of population basis shows that most of the authorities with very large tax bases per head are in London, where the differences should be dealt with through the joint approach between the GLA and the boroughs suggested above”. (Lyons Inquiry into Local Government, Final Report, paragraph 8.67).
30 “Given that this supplement is designed to enable greater local flexibility where there is local support, it would arguably be perverse to apply an equalisation or limitation scheme to it.” (Lyons, paragraph 8.67).
How consultation should take place with business and the wider community

17. Businesses and local authorities have a mutual interest in successful and prosperous places. Lyons stresses the importance of building trust between local authorities and the business community, stating that the decision making process for a London-wide SBR should be a “debate on investment rather than a debate on taxation”. Lyons also suggests that although it is not desirable for powers over the SBR to rest with the London boroughs it is important to involve the London boroughs in the proposals for a London-wide SBR. To this end Lyons sets out two options to ensure that business and the wider community are involved in decisions to have a supplement and decisions about where it should be spent.

18. We strongly agree with Lyon’s emphasis on decisions being taken based on debate and consensus, where possible, on investment priorities, rather than a narrow focus on rates of taxation. The accountability and approval mechanisms for an SBR should follow this approach. In London, the legislation establishing the GLA requires consultation with local authorities, voluntary bodies, organisations representing different religious, ethnic, racial and national groups and bodies representing the interests of persons carrying on business in Greater London, before the GLA uses its general powers. The Mayor is subject to similar requirements in preparing his statutory strategies. The best approach would be to build upon these arrangements, especially as the priorities for use of any SBR would be set out in the Mayor’s strategies (particularly those on Spatial Development, Transport and Economic Development).

19. It follows that a voting system would be wholly inappropriate for the SBR. Raising revenue through a London-wide SBR for large infrastructure projects is very different from the local BID schemes that have previously utilised a voting mechanism. The Mayor has a democratic mandate, and use of SBR resources are likely to form an important part of his or her policies and strategies. A ballot would not be conducive to the kind of debate Lyons favours—it would inevitably focus on short-term issues (particularly as any SBR would be paid by occupiers and not landowners, who tend to take a longer-term view), and would merely provide a forum to re-fight mayoral elections. Ballots would also be prohibitively expensive to organise and hold, particularly if they had to be repeated on an annual basis. They would also add complexity and bureaucracy to infrastructure projects, which are likely to be financed by more than one funding stream. In addition to this, unsuccessful SBR proposals would pose a burden on council tax payers, and this would be more likely if a voting system was used. Finally, it is worth bearing in mind that businesses do not currently have a vote for the national non-domestic rate, for which democratic accountability is through ministers and Parliament.

20. We agree with Lyons’ favoured alternative, a statutory consultation process. This should set out to stakeholders a clear economic case of the likely impact of a proposed project, linked with clearly articulated regional priorities. The GLA Act 1999, best value and other legislation impose considerable statutory responsibilities on the GLA and the functional bodies in relation to consultation as explained above. Meeting those obligations is a key priority and the GLA has a well-developed consultation process as exemplified through statutory consultation on the Mayors’ strategies and the budget.

21. We propose that the consultation on the introduction of SBR and how it is spent is built into the established budget consultation process. Arrangements would therefore be transparent providing businesses and London boroughs with a visible link to local expenditure, demonstrating how they will get a return on their investment. The business community will need to have confidence that the introduction and use of powers to raise an SBR is in their interests.

CROSSRAIL

22. Crossrail is the prime example of an infrastructure project that could be part funded through an SBR. It is a strategic project which will bring enormous economic benefits to the whole of London, directly and indirectly, and beyond. Crossrail’s route includes 8 of the top 10 boroughs with the fastest forecast absolute growth in jobs between 2003–26. Crossrail will also generate additional national tax revenues of at least £12bn. Transport for London (TfL) has calculated that Crossrail will provide 40% of the extra rail capacity London needs by 2015. It will significantly reduce congestion on all the lines in central London, benefiting commuters from all London boroughs.

23. The SBR would capture part of the financial benefits that accrue to beneficiaries of Crossrail, particularly large-scale business, as the agglomeration effects produced by such infrastructure will have direct and indirect positive impacts on business in London.31 The range of net agglomeration benefits have been valued between £37 billion to £68bn (present value) to UK GDP over 60 years. The Government has indicated that there should be a substantial contribution from London businesses to help pay for Crossrail, combined with funds from the Department for Transport, Network Rail, Transport for London and the Public Works Loan Board. Using a SBR to provide some of the funding would reduce the burden on national taxpayers, who will still benefit from Crossrail (not least through its uplift to national Exchequer revenues), but not so directly.

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31 Agglomeration enables: better access to a large workforce; more competing and complementary businesses and institutions; the availability of intermediate goods; access to large specialised client base; and the potential for informal contacts and knowledge sharing.
24. As Crossrail is a large-scale project whose primary benefit will accrue to large businesses, consideration would be given to applying thresholds so that small businesses would not pay the SBR.

25. 31 borough leaders, and the Corporation of London and all London Assembly members have signed up to the “Campaign for Crossrail”, which was launched by the Mayor on 6 June 2006. Campaign supporters include London First, the CBI and the London Chamber of Commerce as well as many leading companies and other organisations in London and the UK, including 20% of the FTSE 100.

IMPLICATIONS FOR BUSINESS IMPROVEMENT DISTRICTS

26. One aspect not addressed by the Lyons’ review which will require further consideration by the Government is the implications of a new supplementary business rate for existing and future potential business improvement districts (BIDs).

27. There are 15 BIDs in London, ranging from the New West End Company (covering Oxford, Regent and Bond streets) to London Riverside (covering an industrial estate in Havering). BIDs are funded through a levy paid by occupiers in a particular area.

28. The Mayor is supportive of BIDs, which provide a valuable means for businesses to play a part in the management of commercial areas, coordinating additional services like cleansing or security, enabling better marketing and closer working with statutory authorities and providing a means of influencing the long term strategic direction of their areas.

29. Conceptually, BIDs and a supplementary business rate should contribute to different investments. If both provide net benefits over time, then both investments should be made. In practice, BIDs clearly do not currently contribute to funding Crossrail and the Mayor would not propose that a supplementary business rate be used to contribute to goods and services traditionally provided by BIDs.

30. Nevertheless, there is a concern among business that being part of a BID and also having to contribute to a supplementary business rate would be unduly onerous. The Mayor is therefore considering means of reconciling the objectives of supporting BIDs, while also funding infrastructure needed by the capital as a whole. One possibility currently under examination is amending the BID legislation to enable landowners to be brought within the formal framework of business improvement districts. The Mayor has announced his support for such a change. In Scotland, BIDs have the discretion to include landowners, and to raise a levy from them (in England, only occupiers can be formal BID members, although in some cases landowners take part—and pay—on a voluntary basis). This would provide a broader funding base for BIDs. Again, there are a number of potential practical difficulties—identifying owners of land is not always straightforward, but the London BIDs Group—coordinated by the London Development Agency—is currently examining these questions.

LANDOWNERS AND BUSINESS RATE PAYERS

31. As Lyons recognises, “in the medium to long term almost all of the impact [of the supplementary business rate] will fall on landlords in terms of lower rents. This means that, all other things being equal, [a supplementary business rate] will lead to a fall in property values to reflect the reduced value of future rental streams, and that a reduction in rates will lead to a rise in property values”. (paragraph 8.20). Furthermore, as Lyons recommends and the GLA supports, if revaluations also take place more regularly, any adverse impact of a supplementary business rate on a particular sector (such as retail, which requires more extensive property by its very nature) should more quickly be taken into account in the revaluation of future rental streams.

OTHER IMPLICATIONS

32. Implementing a supplementary business rate will take time. This must not be used as an excuse to delay Crossrail and other vital infrastructure improvements both in London and elsewhere and the Government must provide the necessary bridging finance required, both because the infrastructural demands of a growing city are now becoming critical and delays to their implementation carry a significant cost to the economy, and as an incentive for central Government to introduce the new powers expeditiously. It is crucial that construction on Crossrail begins in 2008 to allow Crossrail to open in the middle of the next decade and to prevent the risk that future office developments be refused planning permission because of insufficient transport capacity.

32 “Economic theory suggests that the person who really ends up paying the tax is not necessarily the same as the person who hands over the money initially. In the case of property taxes, we would expect the owner to bear the final burden, because he or she will receive lower rents where taxes and other occupation costs are higher . . . The available empirical evidence on business rates supports the theory and suggests that it is landlords who bear the cost (or receive the benefit) of changes in rates.” (Lyons, paragraphs 8.19 and 8.20).
APPENDIX 1

TOTAL VALUE COLLECTED PER ANNUM

Supplementary Business Rates Collected

<table>
<thead>
<tr>
<th>Size of the supplementary business rate</th>
<th>Total collected (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1p</td>
<td>Below £50,000 rateable value</td>
</tr>
<tr>
<td>2p</td>
<td>Below £70,000 rateable value</td>
</tr>
<tr>
<td>3p</td>
<td>Below £100,000 rateable value</td>
</tr>
</tbody>
</table>

APPENDIX 2

MAPS
Memorandum by Mr Peter Webb, Chairman, Surrey Tax Action Group (SBR 46)

I consider that further tinkering will be wasting my money. I have made submissions to the former DETR, Balance of Funding Group, Bennett Committee and Lyons Inquiry (I was a consultant here in Guildford).

To sum up:

There have been many group attempts at resolution over decades from Layfield to Lyons and we have been cruelly served by the tax arrangements.

Judged on the language they use and the mass of anecdotal evidence of failing bureaucracy gone mad, there is in Westminster and Whitehall inexperience of professional management and related disciplines and techniques. They seem not to understand that unless and until “local” tax, which it isn’t, behaves like a price there is no accounting for it.

They should define the objective as effective and credible government at low cost with transformed public accounting. “Where has all the money gone?”.

Local empowerment has been smothered. It is central disempowerment we need. This requires an engineered Design for Delegated Decision-making in a Democracy.

Memorandum by Kent County Council (SBR 47)

RATIONALE

Regrettably, Kent County Council feels that the Communities and Local Government Committee, has sought consultation on the wrong overarching question. It is recognised that the Committee is guided in its questioning by the findings of the Lyons Inquiry into Local Government. Whilst the Inquiry concluded the time was not right to make a major change to the system of business rates it did not rule out the possibility of change at a future date (para 8.38, Lyons Inquiry into Local Government). The Committee did therefore have an opportunity to call for a wider debate and Kent County Council regrets that this opportunity was not taken.

In essence rather than consulting upon a supplementary business rate the consultation should have been about how non domestic rating currently works and how that should be reformed, rebalanced and modernised as a cohesive whole. This should not simply be a question of how Local Government is funded, but how economic development and regeneration is best served through a dynamic relationship with business at an appropriate level.

The rationale for a top up supplementary rate is limited. The Lyons Inquiry does not offer that much evidence to support its introduction other than as a staging post towards developing relationships and trust between local authorities and businesses. Explicitly the Inquiry recognises that a supplementary business rate would “provide local authorities with a more limited flexibility to raise revenues for new investment, but it would also have a more limited impact on businesses”. It infers that the proposal is acceptable because it could be perceived as a marginal change.

This is not Kent County Council’s view. For a relatively marginal gain in funding, longer term relationships with business could be compromised, thereby impacting upon longer term economic development and regeneration partnerships. While the Lyons Inquiry noted that mutual trust between business and Local Government had to be improved before a fundamental review of business rates could be considered, it could be argued that this “compromise” proposal could instead seriously undermine it. Businesses, no more than individuals, do not typically like voting for paying for more tax. Getting a practical consensus of what additional monies there may be or what they should be spent on is likely to be difficult and could lead quickly to a “stalemate”.

We believe there is a readily available alternative solution to a supplementary business rate by modifying and expanding upon the existing Local Authority Business Growth Incentive Scheme (LABGI). This would envisage an approach which does not need to see a supplementary rate levied but which, with price as a constant, retains all of the volume change in the business rate base locally.

The LABGI scheme is now part way through its final year of a three year funding arrangement and government has indicated that its future will be determined as part of the Comprehensive Spending Review 2007. This existing mechanism provides an element of supplementary top up to local funding by allowing local authorities to retain a share of the increased local business rate base, rather than by levying a top up to the business rate.

This mechanistic formula has unfortunately had a patchy record to date. The first year grant determination had to be recalculated three times. The second year grant determination was meant to be based on total local business rate growth with the abolition of a ceiling on individual reward per authority and the abolition of the 70% scaling factor in the calculation (which results in a proportion of the local increase being retained centrally). In the end, government determined that whilst it could abolish the ceiling it could not yet abolish the scaling factor. To set that decision in context, the cost to Kent County Council
of government determining to retain the scaling factor was £1.2 million less LABGI grant than it would otherwise have received for 2006–07. This retrospective reworking of some of the principles of the scheme has been equally unfortunate.

The LABGI scheme does also create a system of “haves” and “have nots” with its differential growth targets based on historic trends in business growth, exacerbated by focusing reward calculations at a district level. If an area has had relatively high past growth because of special circumstances but then sees a slowing in onward growth it is penalised in the future and receives no LABGI grant. Two examples of special circumstances spring easily to mind in Kent:

— Ashford Borough council receives no LABGI grant despite being a designated high growth area.
— Dartford Borough Council receives no LABGI grant because its past historic growth includes the building of the Bluewater shopping centre and it is effectively penalised for having had the shopping centre built too early, in terms of how the LABGI reward model works, with little prospect of ever replicating past historic growth unless there was another Bluewater.

Clearly this makes no sense, particularly when these are designated growth areas in desperate need of funding for infrastructure.

As a minimum Kent County Council would contend that this reform would see:

— The local retention of all additional business rates raised locally after an agreed date.
— By the continued abolition of the ceiling on reward.
— The abolition of the scaling factor which currently holds back 30% of the local growth centrally.
— Assurance given to business that annual increases in business rates would continue to be limited by existing inflation factors.
— LABGI grant to be paid through the new Local Area Agreement funding mechanism:
  — Which would, in turn, enable resource to be targeted (not ringfenced) to economic development and regeneration priorities.

Alongside this, it is acknowledged that relationships need to be progressed upon mutual understanding and common goals. The business community and the County Council both have common goals of promoting and achieving economic development and regeneration, albeit for differing reasons. We of course have a statutory role to play in economic development and regeneration to continue to make Kent a great place to work and live and an attractive inward investment destination of choice. Business has the role to play in actually delivering the economic growth and opportunities for all, working within the economic conditions we help to create. Kent County Council believes that the best way to achieve the most conducive environment, whilst retaining local flavour, expertise and knowledge, is at the strategic authority level working closely with District colleagues through a revised Local Area Agreement.

In the remainder of this document, notwithstanding that overarching objection to the logic of introducing a supplementary business rate, there are practical impediments and constraints to progressing a top up scheme and as requested Kent County Council would wish to comment on these.

**Approval Mechanism**

There is an existing statutory duty on local authorities to consult both business rate payers and council tax payers. In both cases the emphasis is on consultation, not decision taking or approval by those classes of payee. It is clearly right that there should be consultation but it must be emphasised there are logistical and financial costs even in undertaking this type of consultation.

The decision on the overall level of council spending and how it is funded locally is a decision for elected members. Clearly business ratepayers do not have a direct business vote over the elected member and in that sense do not have the same power to hold the elected directly to account at the ballot box. There is a real danger, however, in looking to introduce a formal approval mechanism for a top up levy that this will result in at best increased cost of consultation and approval and at worst stagnation and inability to get supplementary rates voted through. Businesses and organisations, no more than individuals, do not typically like voting for paying for more tax. Getting a practical consensus of what additional monies there may be and what they should be spent on is likely to be difficult.

We do not think there is such a risk with our alternative proposal on a revised version of the LABGI scheme. Nevertheless, the real issue is about how to engage the business community with the wider regeneration and economic development policies across Kent. We start in Kent from a position of some strength given our close relationship with business through the Kent Partnership. We clearly acknowledge, however, that this is an area we wish to develop in the future.
PRACTICAL ISSUES IN TWO TIER AREAS

Introduction of a top up scheme in two tier areas such as KCC is likely to be even more problematical. Non domestic rates are collected by districts, paid over to the national pool and then to a greater or lesser extent rebated back via formula grant to all authorities.

If a district council were to propose a supplementary levy would the county council get a proportionate automatic share of the levy?

Would the county have to do its own consultation?

Should there be a single consultation for a single levy across the whole of a county area (presuming that agreement could be reached by all councils in advance—the preferred solution in two tier areas from the final report of the Lyons Inquiry)?

If a county council were to propose a supplementary levy across the whole of its area but then had to go to say 12 separate approval mechanisms at district level (there are 12 district councils in Kent) there is an inbuilt added degree of bureaucracy and cost. Within Kent that could mean 12 district level votes, 12 district level votes on the county supplementary rate (or perhaps one separate county wide vote), one for the unitary authority in Medway, then 12 districts and one unitary vote for the potential police levy and the same for the fire authority. There is also an inherent risk that if an approval mechanism is required that some district areas may vote for and some against and that may make it administratively difficult to ensure the additional money raised is only spent in areas that have voted for and are paying the supplementary levy.

By way of example, suppose the County Council wished to undertake activity to further publicise and make available specialist information, advice and support to companies that may want to locate to Kent or who are already in Kent (beyond that core work that it already does in this area) in pursuit of its regeneration and economic development policies. This is put out to vote by business rate payers. If half the district areas voted for it, and half against, the County would be left to promote and publicise a campaign that would be relocate to odd parts of Kent, rather than a cohesive whole. Or a refusal of support and advice if a company from outside Kent that was thinking of relocating to Kent because it was proposing to go the “wrong part” (in the sense that it would be locating in a district area that had voted no to a supplementary rate). That would hardly look like a sensible strategic approach to take for prospective users of the service, existing residents and business in Kent, taxpayers or members.

That would seem to rule out the option of approval at a sub-county level and potentially lead to the need for separate approvals for tax collecting and tax precepting bodies, unless all partner bodies could agree a single shared delivery plan and supplementary business rate proposal in advance.

The alternative proposal of a revised LABGI scheme, with funding managed through the new Local Area Agreement, would be comparatively straight-forward. Any additional monies would need to be “earned” through an increase in business, with the local bodies deciding how this be aligned to priorities.

SIZE OF THE SUPPLEMENT

If there were to be a supplementary rate, the size of the supplement needs to be sufficiently meaningful to make it worthwhile levying. A 1p levy (2.25% increase in current multiplier of 44.4p) across Kent for example would raise an additional £11 million for districts, unitary, fire, police and county combined. Set against a combined service expenditure budget of approximately £2.7 billion that is worth just 0.4% of additional spending.

The alternative LABGI proposal would see benefits in line with local development and regeneration. This would provide an improved incentive for investment in such objectives at a local level.

EQUALISATION

Whatever proposals are considered, quite simply there must be no impact on the equalisation of resources between authorities. This would corrupt any incentive and cloud decision-making.

SMALL BUSINESSES

If a supplementary business rate were levied then in principle small business should probably, for equity reasons, be expected to pay the supplementary rate. There should not be any minimum threshold for payment. If the supplementary rate were to be collected separately then there would be clear argument for not collecting de minimis amounts as the administrative burden of collecting may outweigh the additional revenue received. Given that all businesses are already billed for business rates there seems no impediment to ensuring that the supplementary rate levied, however small the change in the overall bill, is reflected in the business rate bill issued.
It is noted that small business already enjoys some relief through the small business rate multiplier in the national scheme. Having said this, small businesses can find the existing non domestic rate a disproportionate burden on their costs and in that case a supplementary rate is likely to be equally disproportionate and consequently disastrous for the encouragement of SMEs.

On balance, therefore, it is probably right for the responsible authority in each area to set the policy with regard to whether small businesses pay or not having due regard to its own overarching economic development and regeneration strategy, rather than to having this prescribed on a national basis.

CONCLUSION

In conclusion, Kent County Council cannot support the supplementary business rate proposal. This is because of the range of difficulties set out in this paper. Should a more fundamental review of Local Government funding be inappropriate at this time, instead a revised LABGI scheme should be considered. The main characteristics of such a scheme are set out in this paper and it is believed that this will provide a good way forward that will facilitate economic development and regeneration working with key partners.

Memorandum by Selby District Council (SBR 48)

INTRODUCTION

1.1 Selby District Council is one of seven district councils in North Yorkshire and serves a population of around 77,600. It is predominantly rural in nature although the majority of the population is found within the districts three main towns—Selby, Sherburn-in-Elmet and Tadcaster. Its neighbouring areas include the towns and cities of York, Harrogate, Leeds, Doncaster and Wakefield, with the rural East Riding of Yorkshire to the east.

EVIDENCE

Response to Sir Michael Lyon’s proposal for a supplementary business rate

2.1 Selby District Council supports Sir Michael’s proposals for a supplementary business rate (SBR) and welcomes the opportunity to increase flexibility for supporting economic growth at a local level.

2.2 Selby District Council takes its ‘place shaping’ responsibilities seriously and has promoting prosperity as one of its strategic themes. The Council recognises the importance of a diverse and vibrant business economy and is working hard to ensure that:

“Companies recognise Selby district is an active and dynamic environment where their businesses can grow and individuals reap the benefits of a thriving economy through more job opportunities”.

(SDC Corporate Plan 2006–10)

2.3 We agree that businesses are important stakeholders in local government and that by developing effective engagement and working more closely with the business community we can develop the shared objectives required to encourage growth in this area.

The rationale for introduction of a supplementary business rate

2.4 A SBR should be used to raise additional resources for investment in projects to support existing business growth and to attract new businesses into an area. The additional resources raised should be directly linked to additional or enhanced services so that outcomes associated with the investment are clear.

2.5 The definition of suitable projects should be flexible to enable communities to identify issues and solutions that are meaningful to them.

2.6 It is important that decisions concerning SBR take into account the impact on the wider community.

Accountability and approval mechanisms for the introduction of a supplementary business rate at a local level—the role of business rate at a local level—the role of business and the wider community

2.7 It is vital that any approval mechanisms are transparent. There should be a clear differential between existing business taxation and a new SBR, with decisions on raising and spending new resources being made locally in close consultation with the business community and other key stakeholders.

2.8 Wider stakeholder engagement is already established through local strategic partnerships and local area agreements and these should be developed further. We would support Sir Michael’s recommendation for consultation to be used to support decision making rather than a voting system.
Consideration of implementation issues including the impact on local authorities’ tax bill and decision making in two-tier local authority areas

2.9 Any proposed system should be as simple as possible and easily understood. Local Authorities and businesses need to be able to plan for resources and spending and therefore SBR should be clear and predictable.

2.10 Where possible a new SBR should build upon the current rating system in order to keep the burden and cost of administration to a minimum, with the cost of implementation and ongoing administration being met from the additional resources raised. In practice it may be difficult to identify the additional cost of administering a new SBR system and care needs to be taken to ensure that the burden does not fall on Council Tax payers.

2.11 We note Sir Michael’s recommendation that SBR should be levied by upper tier councils in two-tier areas, however we would anticipate that this would be administered by existing billing authorities (district councils) to enable this to be bolted on to current arrangements. However, decisions on the supplement to be levied and how it should be spent should be the subject of joint decision-making processes across all tiers of local government, the business community and other key stakeholders.

The impact of a supplementary business rate on equalisation

2.12 SBR should not be subject to equalisation as this goes against the principle of local flexibility. SDC supports Sir Michael’s recommendation that all revenues raised through a new SBR should be retained locally.

The appropriate scale of the supplements

2.13 The scale of the supplement again should be a matter for local determination and agreed jointly with the business community and based upon the needs of the communities in question.

The threshold for payments and whether small businesses should be required to pay

2.14 We would support Sir Michael’s proposals for a national framework for small business relief and would agree that this should include flexibility at a local level to manage this. We would also ask that consideration be given to relief proposals for charitable organisations.

Memorandum by the British Retail Consortium (BRC) (SBR 49)

The British Retail Consortium (BRC) welcomes the opportunity to contribute to the Communities and Local Government (CLG) Committee’s examination of the case for introducing a power for local authorities to levy a supplement on the business rate. The BRC is the leading trade organisation representing the retail sector and exists to defend and enhance the economic, political and social climate in which its members operate. There are over 180,000 VAT-registered retail businesses in the UK operating in more than 270,000 retail outlets. The retail industry employs nearly three million people and accounts for more than 11% of the total UK workforce, an increase of almost 100,000 over the last five years. UK retail turnover in 2006 reached over £255 billion.

1. Summary

1.1 Business rates in the UK are a more significant tax on business property than comparable taxes in all other European countries (except Denmark), and in 2006–07 they are expected to raise around £20.3 billion across the UK.

1.2 The retail sector’s relatively high use of property means the impact of business rate increases is more significant than in other sectors. Retailers contribute more than any other industry to business rates liability, providing more than £4.5 billion per annum to the Treasury. This is 25% of all rates receipts the Government receives.

1.3 The BRC has major reservations about the introduction of a power to levy a supplement on the business rate and the impact this will have on retail profitability. The BRC believes this proposal amounts to a form of re-localisation, and will result in the unpredictability, instability and inequity that we were concerned about when the business community opposed returning the business rate to local authority control.

1.4 Taking Sir Michael Lyons’ inference that the upper rate limit for the levy could be as much as 4 pence in the pound (or an increase of about 10% on the Uniform Business Rate (UBR)), which he suggests based on current Business Improvement Districts (BIDs) levels, then the retail sector’s rates liability could increase by over £500 million per year.
1.5 Communities benefit from a vibrant and diverse retail offer; multiple retailers drive footfall, anchor regeneration projects and provide employment opportunities for the local community. For example retailers already contribute significantly to local government finance, through general taxation and thus a local authority’s central grant, section 106 agreements, BID levies and voluntary contributions to local projects.

1.6 We are concerned that the business rates system is increasingly being seen by decision makers as a predictable and consistent mechanism for raising private sector finance for various projects. Retail is clearly a property intensive business, and retail outlets are often limited by the supply of accessible property, such as in a town centre shopping area, or retail park, while other non-retail businesses are not so dependent on their trading location. This restricts the market for retail property, raising both property values and non-domestic rates as a result, which is exacerbated by additional levies on rateable value.

2. CURRENT AND PROPOSED BUSINESS LEVIES

2.1 The retail sector already contributes significantly towards local investment; through general business taxation which provides considerable revenue to local authorities’ central grant, retail is the largest sector contributor towards business rates, the sector finances local schemes through local authority imposed section 106 agreements and makes significant voluntary contributions to local community projects. There are a number of current and proposed initiatives, listed below, that will result in an even greater business rates burden on the retail sector, making another supplement potentially damaging to retail viability in certain areas:

2.1.1 The retail sector has taken a lead in BIDs, and is the major contributor and enabler of these regeneration schemes. There are currently 45 BIDs established, and many more on the horizon. The sector ordinarily contributes between 1% and 2% of rateable value to these schemes.

2.1.2 A likely funding mechanism for the private sector’s contribution towards Crossrail is via a 3% supplement on London business rates, meaning an overall increase of approximately 7 percent of business rates. This would have a huge impact on retail liability in London, and fails to take into account the benefits of Crossrail to individual sectors.

2.1.3 The Chancellor recently announced reform of Empty Property Rate Relief. The impact of this proposal on the occupier will be significant, which Government clearly failed to recognise as a result of insufficient consultation and poor understanding of the property market. The reforms will yield an extra £950 million a year in rate receipts, a large proportion of which will come from the retail sector.

2.2 The Local Government Finance Act 1988 ensured that the tax take from non-domestic rates in real terms did not increase or decrease. The UBR was therefore adjusted to ensure that tax receipts only increased by the Retail Price Index (RPI). This is an important element of business planning and allows businesses to control their expenditure with some degree of certainty. The BRC is concerned at the prospect of this link being eroded. There is evidence that the RPI cap, even though it is in place to protect business from above inflationary rates increases (something Sir Michael recommended should be retained as it creates a stable and predictable system for both government and for businesses) is failing in its purpose. Increases in the rates yield from the levies and reforms outlined above are having a significant impact on retail planning and profitability. If unitary authorities are given the power to raise additional revenue through the rates system this situation will be exacerbated. Businesses look for predictability in business rates, and this is possible when the tax take remains unchanged. If rates are to be varied between authorities rates will be increasingly complicated, difficult to manage and will create distortions in the market.

3. ACCOUNTABILITY

3.1 Local funding arrangements need to be transparent and accountable, in order to ensure greater trust between businesses and local authorities. The BRC agrees that there is a pressing need to develop more constructive relationships between local authorities and businesses, focussing on joint interests in fostering economic prosperity and investment in local infrastructure could possibly go someway to achieving this. Indeed Sir Michael uses the BIDs model to suggest that, with the right proposals and engagement, local authorities and businesses can develop effective relationships and mutually advantageous proposals for the improvement of locations. The BRC has been supportive of BIDs in the past, and believes this mechanism does go some way to building constructive relationships between the public and private sectors. A critical aspect of this is ensuring transparent use of businesses money, and accountability through a voting process.

3.2 However the current proposal of accountability through consultation between local authorities and business is not sufficiently robust and the BRC cannot support this. It is missing the point to suggest that it would not be consistent with accountability arrangements for other taxes (council tax and other national business taxes) for there to be a voting mechanism for approval of expenditure derived from this extra business revenue raising power. The BRC believes that any potential supplement is an additional local tax, imposed without an effective form of democratic accountability. Council tax payers can vote at a national or local election. Accountability of local authorities to businesses is often indirect and dependent on recognition by authority’s that successful local business is essential for the long-term vitality of their
4. Equalisation

4.1 Sir Michael recommended in his report that the existing national arrangements for business rates should be retained, and that local authorities should not be given the power to set localised rates. He also recommended that the Retail Price Index cap on the national level of business rates should be retained. These are two recommendations the BRC has consistently supported. The central national non-domestic rate has overwhelming advantages over a localised system, particularly in its predictability and uniform application. Before centralisation, the significant degree of variation proved a major disincentive for businesses to operate in areas with high local taxes. Granting local authorities the power to introduce a supplementary levy on the business rate represents a danger that businesses will again be forced to deal with large numbers of rates levies across the country.

4.2 Suggesting that supplements should be levied by unitary authorities and metropolitan districts would presumably require some degree of redistribution, given that all qualifying businesses within this level of authority would contribute towards a localised project of benefit to only a minority. As indicated above we do not support a multitude of local business rate levels, indeed the additional complexity for business of a number of different local rates is something that led Sir Michael to recommend preserving a centrally controlled business rate. However this level of disaggregation reduces accountability and transparency and is also unwelcome. Well developed BIDs work as they are targeted at specific and often small scale projects, and funded by those that benefit from them. Expecting businesses, especially SME’s, to pay for projects that are of no material benefit to their own operations is inequitable.

4.3 There are clearly substantial variations between the rateable values of property in different areas of the country, which causes an equity problem, with different authorities having to raise different levels of supplement to finance similar projects. This form of localisation does not therefore solve the problem of equalisation. Sir Michael’s figures suggest that there is a huge disparity between, for example, Hertfordshire, Kent and Surrey Councils that could raise around £10 million per annum from a 1 pence supplement, and Derby, Gateshead and Doncaster Councils that would only be able to raise around £2 million. It could be argued that without some form of equalisation in the long run this could have a significant impact on disparities in regional competitiveness.

5. Retail Contribution to Local Communities

5.1 Communities benefit from a vibrant and diverse retail offer; multiple retailers drive footfall, anchor regeneration projects and provide employment opportunities for the local community. They contribute to providing safe, clean and accessible environments for customers to shop in. A diverse, vibrant retail heart is the mainstay of town centres and rural communities across the country. However increases in regulatory burden and property costs are threatening to undermine the contribution the retail sector can make to the delivery of sustainable communities.
5.2 Retail is the largest private sector employer in the UK, employing more than 3 million people, with 50% of people employed in retail working on a part-time basis\footnote{Labour Force Survey data, summer 2004.} and 31% of retail employees aged 16–24. The retail sector is leading the way in private sector investment into deprived communities. The retail industry is not the only or most important investor in deprived communities, but it can act as a potent, early catalyst in the regeneration process. The retail sector has also been creating and supporting crime partnerships for almost a decade. These partnerships involve retailers and other businesses working together with town and shopping centre managers, police, local government and other agencies such as drug and youth offending teams, to manage crime and criminals and to provide an early intervention and warning service. The purpose is to reduce crime and the opportunity for crime, reduce fear of crime and create a safe and welcoming environment in our towns and cities for residents, visitors and staff. The retail sector spends over £10 million a year supporting partnerships. Indeed, without their contribution there would be no partnerships.

5.3 Increased rates liability of up to 4 pence in the pound could seriously harm the profitability and hence viability of retail businesses, particularly in deprived communities in most need of retail investment which can act as a potent, early catalyst in the regeneration process. This system of local taxation unfairly penalises retail, given the high rates of property use. Given recent significant rises in occupancy costs, increased rates liability as a result of the a supplementary rate may inhibit retail investment, affecting employment opportunities, reduce capital expenditure on crime reduction projects and money available for voluntary projects and regeneration schemes such as BIDs.

6. CONCLUSION

6.1 The BRC is opposed to plans to raise local revenue through a localised supplementary business rate. We believe it is too simplistic, fails to take account of business contributions outside the taxation system, will result in a multitude of different tax rates across authorities distorting competition and creating unpredictability. Neither do we think this proposal accountable, transparent nor equitable.

6.2 The BRC supports opportunities to involve retailers in community development schemes as the retail sector has an important role to play in improving the quality of life in local communities, not only through the provision of essential services but also as a driver of economic growth through job creation, investment in regenerative projects and improvements in the skills and aptitudes of people at local level.

6.3 However it is crucial that funding arrangements for local projects should be introduced in a transparent and accountable way, enabling businesses to have greater trust in local authorities to prioritise and deliver businesses key concerns. This is why the sector is a key contributor and enabler of BIDs.

6.4 The BRC has maintained that a localised business rate could harm the vitality of businesses, distorting the property market, and inhibiting investment. We consider that a locally controlled supplementary rate will have much the same negative impact, including damaging relationships between local authorities and the retail community and creating national inequalities as a result of divergent property values. In our view a supplement on the business rate is essentially a localised tax, and thus, were local authorities to be granted this power, businesses role in decision making could not be confined to the periphery through a process of consultation but would need to be far more significant through a voting mechanism. The retail community must be allowed to play a key role in the development of projects, as well as in the decision making process, for which this increased revenue, over and above the significant contribution that businesses already make, is being used.

6.5 The Committee is urged to consider the context of significantly rising costs and falling prices when evaluating potential changes to this system of business taxation. The introduction of a supplementary levy must not be viewed in isolation, but considered in totality the retail, and wider business, sectors’ rising regulatory and financial commitments. Further increases in rates, and the likely introduction of multiple local charges, is likely have damaging consequences for business vitality. In our opinion a supplementary business rate is not the answer to solving the endemic problem of local government finance, but a short term solution lacking accountability or transparency.

Memorandum by London Councils (SBR 50)

1. London Councils is pleased to respond to the request from the Communities and Local Government Committee to provide a memorandum on the proposals in the final report of the Lyons Inquiry into Local Government for a power for local authorities to levy a supplement on the business rate within their areas. Our memorandum responds to the specific issues identified by the Committee.

2. It is important to emphasise that this memorandum represents London Councils initial views on the proposal for a supplementary business rate. We understand that there is unlikely to be a consultation paper from Government on the issue until late Autumn at the earliest. London Councils will want to have comprehensive discussions and debate with member authorities, with the Mayor of London, and with representatives of London business organisations and other non domestic ratepayers—at both regional and
local level—before determining our final views on the range of issues identified by the Committee. Sir Michael emphasises the importance that any arrangements for a supplement to the business rate should be introduced in a transparent and accountable way, which enables businesses to have greater trust in the desire and ability of local authorities to prioritise issues of greatest concern to them. We agree. It is therefore essential that in forming London Councils’ views on potential options for the supplement in London we should take full account of business views, and we are developing a programme of meetings and discussions with all interested parties.

THE RATIONALE FOR INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE

3. London Councils welcomes the proposal for the introduction of a supplementary business rate (SBR) but continues to support the full re-localisation of non-domestic rates. We believe that a SBR would give London boroughs increased flexibility to respond to the needs of local businesses and other non domestic ratepayers as well as helping to promote substantial improvements to the relationships between local authorities and their local business communities. These improvements are key to developing and enhancing the place-shaping role of local authorities. The introduction of a SBR should help local authorities to re-engage with and involve the business community in local policies and decision making. It should also give local authorities more flexibility to deliver economic development and other services for the benefit of their non domestic ratepayers. On a practical level, the introduction of a SBR should be a straight forward and efficient way to introduce a new source of local revenue into the local finance system. Local authorities already administer and collect NNDR and have the systems in place to implement a local variation to business rates. We are undertaking some preliminary work to assess the administrative issues arising from the introduction of a SBR.

ACCOUNTABILITY AND APPROVAL MECHANISMS FOR THE INTRODUCTION OF A SUPPLEMENTARY BUSINESS RATE AT A LOCAL LEVEL—THE ROLE OF BUSINESS AND THE WIDER COMMUNITY

4. The introduction of an SBR will require new mechanisms and processes to ensure that local businesses are fully consulted on the introduction of an SBR and can have a major influence on the priorities for using the SBR. Transparency in the consultation process will be crucial. Local authorities will need to set out how much additional revenue an SBR would provide, how these revenues could be used at a local level, and the potential benefits that they will provide to both local businesses and the wider local community. Local businesses will need to be given the opportunity to raise concerns, and suggest alternative projects which could be funded from SBR revenues, for consideration by the local authority. The consultation process should also include details of any proposed local exemptions and variations in the SBR for different types and classes of business. Where local authorities are considering a range of possible supplements, local businesses should be consulted on all possible outcomes with the marginal benefits of alternative projects and higher SBR rates clearly set out so that businesses can make informed decisions.

5. The consultation process should be accompanied by guidelines regarding the method by which local authorities will consider business responses, with clear procedures for communicating decisions regarding the SBR to the business and wider communities. However, as far as possible, national prescription should be avoided about the nature and form of the consultation process.

6. A key issue for the consultation with business is whether a formal process of voting should be mandatory (as is required to agree a business rate supplement under the current Business Improvement District legislation). A process of voting could be difficult to organise, costly and the results could be problematic to interpret—certainly on a regional basis. On the other hand, business organisations strongly support a mandatory vote. We will want to have detailed discussions with business organisations and others on this. Our initial view is that it should be up to individual boroughs, in consultation with their local businesses, to determine whether or not to use a formal voting system.

7. Any SBR scheme should run for a minimum three year cycle, preferably timed to coincide with national Spending Reviews. This would enable local authorities to consider medium-term planning and budgeting when proposing SBR levels and projects linked to SBR revenues. However, there may be a strong case—particularly where the additional revenue is used to finance borrowing for major infrastructural projects—for the SBR to last longer. Many Business Improvement Districts last at least five years. After each SBR cycle businesses will need to be consulted again on whether the SBR continues, and whether any changes need to be made to the level of the SBR and spending plans for the revenues raised.

8. To strengthen local accountability, as part of the SBR process local authorities should, in addition to their normal discussions with business, plan to ‘report back’ to local businesses at the end of each SBR cycle. This report should set out the local benefits and outcomes achieved through the use of SBR revenues.

9. Revenues raised from a local SBR should not be ring fenced and should be available for local use at local discretion. Local authorities should not be required to spend the revenues from a local SBR solely on business/economic development related projects, although we recognise that it is probable that a significant proportion of the revenues will be used to fund economic development projects, as it unlikely that businesses will consider supporting additional local business taxes if they are used to fund existing spending priorities.
In relation to consultation with business, the London position is complicated by the possibility, advanced by Sir Michael Lyons, that a single-London wide SBR could be set via agreement between the GLA and all London boroughs and that a joint-plan is considered for the revenues collected from this SBR to fund city-wide strategic projects. If a regional SBR were introduced in London the consultation process with businesses would need to be carefully constructed. There would be difficult issues regarding the appropriate level at which the consultation process should be carried out (ie should the GLA or London boroughs be responsible) and whether this could confuse accountability and transparency. For example, a local consultation process coupled with a regional spending plan could provide misleading messages to local businesses about accountability for spending decisions and the potential local benefits of the revenues raised.

**Consideration of Implementation Issues, Including the Impact on Local Authority Tax Bills and Decision-making in Two-tier Local Authority Areas**

11. London Councils believes that it is essential that London boroughs should be able to benefit from the local flexibility resulting from a local SBR—if local businesses in individual boroughs are willing to pay an SBR to fund local projects then boroughs should be allowed to implement an SBR scheme and spend SBR revenues locally. This would enable boroughs to develop better and more accountable relationships with local businesses, and to be more adaptable to local conditions. London Councils does not accept the proposal from Sir Michael Lyons for a single London-wide SBR scheme. A purely regional scheme would mean that local authorities in London would be treated differently from local authorities elsewhere in England, thereby preventing them from enjoying the greater flexibility and enhanced place-shaping role that a local SBR could provide. We consider that it is essential that London boroughs have the same powers that have been proposed for other upper-tier authorities in England, therefore allowing local businesses and the wider local community to experience direct local benefits from the implementation of a SBR.

12. In addition to a local SBR, it could be possible for a regional supplement to be negotiated separately by the GLA with business in respect of schemes that were clearly London-wide. Equally, it would be possible to explore the option of a joint system which has both regional and local elements. Under such a scheme, boroughs would be free to propose a local SBR and local spending plans and to put these plans forward to businesses and other non domestic ratepayers through an agreed consultation process. In addition to the local rate, there could be an additional regional element paid into a regional pool for London-wide projects. The regional element of the SBR would need to be decided jointly, with both boroughs and the Mayor agreeing on proposals for how much the regional element of the SBR would be and what projects the revenues would be spent on. The regional proposals would then need to be put to business organisations for approval. This option could be further developed to allow sub-regional approaches, whereby local authorities could collaborate with neighbouring authorities to pool local SBR revenues to fund cross-borough projects which would benefit sub-regional economies.

13. Such an approach could mean that an element of any SBR raised from local businesses would be retained locally and spent on local projects, whilst the regional element would be available to fund London-wide strategic projects to benefit the capital as a whole. There are a wide range of issues with a dual system that would need further consideration, including the details of the consultation process with non-domestic ratepayers and the possible complexity of dual structures of exemptions and thresholds.

**The Impact of a Supplementary Business Rate on Equalisation**

14. London Councils acknowledges that there are wide variations in the ability of individual London boroughs to raise revenues from a SBR. Westminster City Council would (in 2006–07 values) be able to raise some £26.5 million from a 1p supplementary rate, while a number of other boroughs—for example, Lewisham, Barking and Dagenham, Harrow, Redbridge and Waltham Forest—would be able to raise less than £1.2 million from the same rate. There would also be substantial variations in the amount that could be raised per head of population. But, we accept the view of Sir Michael that it would be perverse to apply an equalisation scheme to a supplement designed to enable greater local flexibility where there is local support for it. It is also essential that any equalisation of revenues within London should be carried out on a regional basis so that London does not lose the benefit of its tax raising capacity to areas outside the capital, as currently happens with NNDR.

**The Appropriate Scale of the Supplement**

15. London Councils agrees with Sir Michael’s view that that different levels of SBR would enable different kinds of projects to be undertaken in different areas and that “there is thus no right answer to this question” (page 299) as to the appropriate scale of the supplement. We recognise that a low level of supplement, particularly at the inception of the scheme, could allow businesses to develop confidence in the scheme. But London Councils does not accept there is a case for a centrally prescribed maximum to be applied to the SBR. If boroughs are able to set a local element, it would be appropriate for a local decision to be taken about the proposed rate of the SBR, depending on the views and spending priorities of local
businesses. In a regional scheme, the level of the supplement would need to be agreed between all London boroughs and the Mayor, again dependent on agreed regional priorities and spending plans, before being put to business representatives.

16. In a scheme with local and regional elements, the process of rate setting would become more complicated. Local authorities would need to set the local element of the SBR with reference to local conditions and local spending priorities for the revenues raised. However, in doing so they would need to consider how this might be affected by the proposed regional rate.

17. An additional layer of complication when setting SBR rates comes from the interaction of the SBR with existing or proposed business improvement districts (BIDs). Local businesses in BIDs already pay a supplement on their business rates to fund projects/spending in their BID areas. There is a clear risk that an additional layer of business taxation for these businesses could result in a decline in the support for new BIDs or the dissolution of BIDs already in existence.

18. London boroughs have been very successful to date with BIDs. There have been 16 successful BID ballots with two more ballots due. 11 boroughs have one or two BIDs within their area. So far, there have been no “no” votes. BIDs in London typically have a five year term, and a 1% levy, though there are examples of levies up to 2%. Most have specific exemptions—mainly for small businesses or charities—and there are examples of the payments being capped. The approach discussed above, including a local, borough-based element, could make it easier to ensure that any BIDs were included in decisions about the local element of the SBR. For example, businesses within a BID area could be exempted from the local part of the SBR.

THE THRESHOLD FOR PAYMENTS AND WHETHER SMALL BUSINESSES SHOULD BE REQUIRED TO PAY

19. Decisions regarding thresholds, exceptions and discounts for the SBR will ultimately be dependent on how the scheme is implemented. As a guiding principle, London Councils believes that decisions such as these should be determined by local authorities in consultation with non domestic ratepayers and that the structure of a SBR is tailored to suit local economies and local business conditions. This would further enhance the place-shaping role of local authorities and enable them to assess and react to local needs through the SBR. Local exemptions and thresholds should be decided by local authorities taking into account their spending plans for SBR revenues, their local circumstances and any administrative implications.

Letter from the Head of Strategic Projects and Policy Evaluation, Mayor’s Office, to the Clerk of the Committee (SBR 51)

I would like to thank the Committee for the opportunity to present both written and oral evidence as part of this important inquiry. I set out below some further points, following the evidence presented to you on 19 June, which I hope you would be able to consider in addition.

1. I note from London Councils’ evidence that “the SBR should not be ring-fenced”; by contrast, the Mayor believes that he should consult on specific proposals that the SBR would be hypothecated to (and to no other), in order to retain full accountability and transparency to business.

2. The establishment of the Greater London Authority in 2000 restored two-tier governance for the city. The GLA oversees many of the functions performed elsewhere by counties, including transport and economic development. It is the only body with a direct democratic mandate able to take a London-wide view. Cllr Cockell’s statement that London boroughs can be considered “upper tier” authorities is therefore incorrect.

3. Having 33 separate local authority SBRs would be inappropriate for the strategic infrastructure investment that London needs and that a London-wide SBR would help contribute to. By their very nature, borough based SBRs would be un-strategic viz a viz the needs of the city as a whole.

4. A London wide SBR can and should coexist with Business Improvement Districts (BIDs). However, we can currently see no justification for allowing businesses in BIDs to “set off” their business rate contribution to their BID against their SBR payments, as was suggested by Dr Julie Grail, for the following reasons:

(a) An SBR that is designed to fund strategic infrastructure is completely different from a local, area-based initiative such as a BID. BIDs are business-led, and are primarily aimed at the better management of a locality; expenditures tend to be on useful and popular business measures such as better security, cleaning and marketing.

(b) An SBR should not threaten BIDs, which have proven to be both popular and effective where they have been established. In fact, the benefits that BID levies bring, according to the evidence you heard, appears to be attracting businesses to BIDs, rather than discouraging them.

(c) The threshold set for the SBR is likely to be far higher than the thresholds for BID levies—in London, for example, most BIDs have property threshold values of less than £50,000. For the class
of properties between the BID lower limit and the SBR threshold, there would be no change in outlay. For larger businesses, which would pay the SBR, the benefits brought about by infrastructure projects would be far greater.

An arrangement of this kind is likely to create a range of practical implementation difficulties and potential unfairness that in our view means that what is superficially an attractive option is less so on closer inspection.

5. I would like to reinforce our contention that a ballot would be completely inappropriate for the SBR. In addition to our original evidence arguing against this, it’s also important to highlight one immediate problem with a ballot, which would be that the head offices of many of the properties that would be involved across London are located elsewhere in the UK.

6. As Clive Betts MP noted, the proportion of local expenditure that is funded through business rates has fallen from 32% in 1990–91 to 22% in 2003–04 according to research by the Local Government Association. Business rates have fallen in real terms compared to council tax. An SBR would help restore the balance.

In summary, the key features of an SBR that the Mayor of London would like to see instituted are as follows:

— It should be a single, London-wide rate (thus ensuring equalisation across London and reflecting the strategic purposes to which it would be applied).
— There should be no further equalisation of the SBR between London and the rest of the UK, not least as London already contributes more in tax than it receives in public expenditure.
— Maximum flexibility should be devolved to the Mayor to determine any thresholds, reliefs, and exemptions of the SBR (by size, sector or geography for instance). In practice, he will look to exempt small businesses from the SBR if, as we presume, it is applied to Crossrail, because large businesses will benefit most from Crossrail.
— The consultation process should be as per the existing extensive consultation on the Mayor’s capital spending plans and borrowing limits.
— Consultation should take place on specific proposals for the use of the SBR. Crossrail is the immediate prime candidate. Business has already demonstrated that it is very supportive of Crossrail.
— Local BIDs should coexist with the London-wide SBR, but BID contributions must not be set off SBRs.