LOCAL TAX FLEXIBILITIES

POLICY DESIGN – INFRASTRUCTURE LEVY

Purpose

1. This is a Government paper to seek views on the detailed policy design of the power to introduce a levy on business rates to pay for infrastructure.

Background

2. This measure will provide Combined Authority Mayors with the power to levy a 2p in the pound supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community, through the Local Enterprise Partnership. This group has been tasked by the steering group with developing the policy in detail.

Issues

Use of the Power

3. It has been announced that the power to increase the multiplier by 2p to fund infrastructure will be granted to Combined Authority Mayors. We recognise that there is a question of whether it could be extended further.

4. Any authorities not covered by the new power could retain the ability to fund infrastructure through existing Business Rates Supplement (BRS) powers, as well as other mechanisms such as the Community Infrastructure Levy.

5. There is a further issue in terms of interaction with BRS powers. It could be set out that no authority which is raising an infrastructure levy should be able to approve a new Business Rates Supplement. This would provide protection for ratepayers from unduly high rates in the future.

Rateable value thresholds

6. The Business Rates Supplement Act includes a rateable value eligibility condition. This provides that no hereditament with a rateable value below £50,000 should pay a supplement. This guarantees protection for the occupiers of less expensive properties, but also means that the regional variation in property values cannot be taken into account.

7. It could be set out that Combined Authority Mayors should have the freedom to set a minimum rateable value threshold above which to charge an Infrastructure Levy. The Mayor could then set out any proposed rateable value eligibility condition in the prospectus to the LEP for approval.

8. The approach suggested above means that authorities will be able to protect the occupiers of less expensive properties, such as small businesses, but will not be constrained by a national threshold. Allowing authorities to set their own rateable value minima means that they can factor in regional variation in property prices to strike an appropriate balance between protection for ratepayers and the capacity to raise revenue.

9. The sign-off requirement of the LEP provides an additional protection for ratepayers.

Scope: Geographical limits

10. Allowing combined authorities to charge a levy in some but not all constituent authorities would provide for a flexible and targeted approach to funding infrastructure improvements in a particular area. At the same time, it would require protection for the integrity of those constituent authorities where the levy would be charged.

11. Combined Authority Mayors could be permitted to charge a levy across the whole of their jurisdiction (excluding associate members), or across a part. This could be across a number of constituent authorities, or within any boundary set out by the Mayor in a prospectus to the LEP.

12. If this option were pursued, it could also be required that any ‘partial’ levy (charged in some but not all constituent authorities) must be for the direct benefit of the part where the levy is to be charged.

Use of Levy Revenues

13. It has been proposed that Levy revenues should be used for infrastructure projects. Infrastructure could be defined in a similar way to the way it is defined for the Community Infrastructure Levy (CIL). The illustrative list for CIL includes: roads and transport; flood defences, educational facilities, medical facilities, sporting/ recreational facilities, and open spaces.

14. Attaching the power to raise a levy to a defined range of uses is a necessary protection for ratepayers against perpetual or unnecessary rate increases. That said, to allow Combined Authorities sufficient room for manoeuvre to fund the projects that would add most value, the definition of infrastructure we propose allows for broad range of potential uses for revenue.

15. The existing Business Rates Supplement powers provide for a supplement to be raised for any project ‘that the authority is satisfied will promote economic development in the area’. To add depth to this broad provision, the Government provided guidance on which projects might be appropriate to

fund. This included projects relating to five long-term drivers of productivity growth: investment; skills; innovation; enterprise, and competition.[1]

16. However, by focusing on infrastructure rather than economic development, it is likely that the power may exclude some projects from eligibility, and include others. For example, medical facilities may be covered by infrastructure but not economic development, whilst skills development may come under economic development but not infrastructure. We wish to provide for a range of permitted uses which provides authorities with the most useful suite of options possible within the policy intention.

17. There could be an ‘additionality’ requirement, as there is under existing Business Rates Supplement arrangements. This means that any revenue raised must go towards spending which would not otherwise occur. This will protect the intention that the infrastructure levy should *not* be used to fund ‘business as usual’ services performed by local authorities.

Multiple Levies

18. A single levy could be raised to pay for multiple projects. If this were permitted, the projects to be funded could be set out by the Mayor in a prospectus to the LEP.

19. To give authorities flexibility, It should be possible for the same authority to raise multiple levies at once, providing that the sum of the infrastructure levies on any given ratepayer does not exceed 2p in the pound.

20. To balance this flexibility against the protection of ratepayers, legislation could introduce an overall cap for all the levies raised, to be the same as the cap for any given levy. This is the provision made by the Business Rates Supplement Act, which sets a cap for each levy and an overall cap for each authority, both at 2p in the pound.

LEP Approval

21. It has been announced that approval of the relevant LEP should be required in order for a levy to be raised. LEPs already play a strategic role in determining the priorities for infrastructure investment through the Strategic Economic Plan (SEP), and would act as representatives of local business communities to ensure that proposed infrastructure projects will benefit ratepayers.

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8306/business_rate_supplements_localauthority_guidance.pdf

22. A requirement for LEP approval provides additional protection for ratepayers, whilst also allowing authorities more flexibility than under the requirement for a ballot as in the existing Business Rates Supplement Act.

23. LEP approval could be given by the LEP board.

24. Whilst LEPs are often co-terminous with combined authority areas, this is not always the case. Requiring sign-off from all relevant LEPs may be too prohibitive for Combined Authorities in future where the LEP coverage is fragmented.

25. If a levy is to apply only to some constituent authorities, then it may be that only the LEP or LEPs which cover those constituent authorities should be considered relevant. If there is a single LEP within the proposed area of application for the levy, the approval of only that LEP board could be required. If there are multiple relevant LEPs, then the approval of at least two-thirds could be required.

Duration of the Levy

26. In terms of flexibility, there is an argument that there should be no national limit on the duration of levies. The duration of a levy could be set out by the Mayor in an initial prospectus containing key parameters of the levy and the project to be funded. This could contain a period of whole years to be approved by the LEP, and the approval of the LEP might be required to extend the levy beyond the specified duration.

27. Granting Mayors flexibility over the duration of a levy would enable them to raise revenue appropriate to the scale of the infrastructure project. As with initial approval, the Mayor should be permitted to submit a revised prospectus to the LEP for extension of the levy for a period of whole years.

28. A revised prospectus could also be submitted to the LEP if the Mayor wished to adjust other parameters of a levy, such as changing the rateable value eligibility condition following a revaluation.

Other Issues

29. Any there any other issues which the Group believes require decision at this stage?