POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Local Tax Flexibilities

1. New Powers

1.1. A key part of the reforms to make local authorities more self sufficient and better able to drive local growth is the devolving of tax-setting powers. Authorities will therefore be able to tailor their own tax regime to fit the local economic environment. The new powers that the government is providing are:

- the ability to reduce the business rates tax rate; and
- the ability for combined authority mayors to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership.

1.2. This paper explores issues around local tax flexibilities to provide a basis for further discussions. The above is not meant to be an exhaustive exploration of all the relevant issues. It is merely an overview of the main issues.

2. The power to reduce the business rates tax rate (the multiplier)

2.1. These reforms build on the introduction of the local discounts powers in 2011 and will provide authorities with the power to provide an across the board tax cut through a reduction in the multiplier for the relevant year.

Background

2.2. Under the old local rates system authorities had the ability to set a local tax rate. Since the introduction of the business rates system in 1990 a uniform business rate – also known as the multiplier - has applied across the country. It is known as the multiplier as a bill is calculated by multiplying the property's rateable value by the "multiplier". The multiplier for 2016-17 is 48.4p and, therefore, a property with a £15,000 rateable value would pay a bill, subject to reliefs, of £7,260. Increases in the multiplier are capped by inflation (a higher multiplier which includes a supplement to pay for Small Business Rate Relief is paid by higher value properties but in this paper the multiplier in question is the lower multiplier).

Issues to consider

2.3. To allow authorities to reduce the multiplier a number of policy decisions need to be taken. The LGA and the Government would like local authorities and other interested parties to help identify and resolve the issues raised by allowing local authorities to set a local multiplier.

2.4. The below summarises the main issues:

- This reform has been envisaged as a power to reduce the multiplier across the board. However, the power could allow authorities to apply the reduction selectively, such as for specific areas or sectors. This targeted approach would though begin to overlap with the local discount powers.

- While the decision to reduce the multiplier would obviously be one for the relevant authority in single tier areas, there is a question about who should be able to take the decision in two tier areas. So the District, County or a combination of both could be the decision taker. There are similar issues to be considered in respect of London and combined authority areas. The position of fire authorities will also need to be taken in to account. Appropriate financial arrangements will also need to be put in place in respect of the costs.

- Any decision to reduce the multiplier could simply be one for the relevant authority or authorities. However, other interested parties, in particular business, could be involved in the decision making process, such as through Local Enterprise Partnerships or a period of consultation could be required.

- An authority may reduce the multiplier in order to encourage business in to the area. That could potentially have an impact on neighbouring authorities. That could be regarded as healthy competition or instead something for which safeguards should be introduced.

- If an authority reduces the multiplier there is a question of whether that should be considered permanent; reversible on an annual basis; or fixed for a period of time. However, if reductions were not permanent, where an authority did reduce the multiplier there is a question about how the multiplier could subsequently be increased to catch-up with the “normal” inflation linked multiplier.

3. Infrastructure Levy

3.1. This power will provide combined authority mayors with the ability 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. The new powers can be envisaged as a modernised version of Business Rates Supplements in line with the new devolution and growth agenda.

Background

3.2. The Business Rate Supplement Act 2009 provides a discretionary power for county councils, unitary district councils and, in London, the Greater London Authority to levy a supplement on business rates, subject to a national upper limit of 2p per pound. Levying authorities can retain the proceeds to fund additional projects to promote the economic development of their local area. Authorities cannot levy a Business Rate Supplement on properties with a rateable value below £50,000. All levies are subject to a ballot. The power has only been used once to date, in London, to fund the Crossrail project.

3.3. As mentioned above, the new power will provide combined authority mayors with the ability to levy a 2p in the pound supplement to fund new infrastructure projects, provided they have the approval of the Local Enterprise Partnership.

Issues to consider

3.4. As with the power to reduce the multiplier, a number of policy decisions still need to be taken to provide combined authority mayors with the ability to levy a supplement. The

LGA and the Government would again like local authorities and other interested parties to help identify and resolve the issues raised by allowing local authorities to set a local multiplier.

The below summarises the main issues:

- The intention is that the power should give combined authority mayors similar powers to levy that are available to certain authorities through the Business Rates Supplement Act 2009. That in itself raises questions about whether the new power should be extended wider than just combined authority mayors and also about the role of the existing Business Rates Supplements powers.

- It is envisaged that the levy would be limited to fund infrastructure. The meaning of infrastructure will therefore need to be defined. However, a wider definition could be used which may provide further benefits. For example, the levy could be permitted to be used to fund economic development projects similar to the approach with Business Rates Supplements

- The levy could be restricted to one per area for one specific infrastructure project or, alternatively, the powers could allow for a single levy for multiple infrastructure projects.

- As with the multiplier reduction, the levy could be across the board, place based or with exclusions or variable rates.

- The levy will need to be in place long enough to support the funding of the infrastructure project. However, a limit on the duration could be agreed at the introduction of the levy, perhaps with a process for it being renewed.

- The Government announced that it believes that any levy should have the support of local businesses through the Local Enterprise Partnership. Decisions will need to be taken on what is meant by Local Enterprise Partnership approval.

- Further boundaries could be placed on the levy such as with Business Rates Supplements. For example, there could be a minimum rateable value threshold to protect small businesses. However, that may limit the amount that could be raised and could impact differently on different areas of the country. It would also restrict local decision making.

Question: Does the Group have any initial steers on the issues raised or think that there are any additional issues that should be considered?

Question: In light of these issues what remit does the Group want to give to the technical working group?