POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

LOCAL TAX FLEXIBILITIES - KEY ISSUES IN POLICY DESIGN

1. The attached paper on Local Tax Flexibilities will be presented to the System Design working group meeting on Friday 2 December. It covers three key issues two of which will be of particular interest to the Accounting and Accountability working group.

2. Those issues are:
    a. The Power to Reduce the Multiplier in Multi-tier Areas
    b. The LEP Role in Approving an Infrastructure Levy
    c. The Permitted Uses for Money Raised by a Levy

3. The first question that this working group may want to consider is what implications the power to reduce the multiplier in multi-tier areas will have for accounting, calculating the balanced budget requirement and NNDR reporting.

4. The second question that this working group may want to consider is how the permitted uses for money raised by a levy should be treated for budgeting and accounting purposes. Specific questions the group may want to consider could include:

    a. Should the money raised by the levy be classified as revenue or capital;
    b. How should the levy be disclosed on tax bills – is the social care precept a good model or is there a more appropriate method;
    c. What is the best method of demonstrating that all the money raised by the levy has been spent on allowable purposes.

5. A summary of this working group’s comments will be provided to the System Design working group to help inform their discussion.

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LOCAL TAX FLEXIBILITIES - KEY ISSUES IN POLICY DESIGN

Paper prepared by Department for Communities and Local Government

Purpose

1. To seek your views on a number of key issues of the policy design of local tax flexibilities. The System Design Working Group last considered tax flexibilities on 1 June on the basis of papers from DCLG and local government.
2. This paper seeks views on options for three key design questions, which are also reflected in the July consultation document.

3. Those issues are:
    a. **The Power to Reduce the Multiplier in Multi-tier Areas**
    b. **The LEP Role in Approving an Infrastructure Levy**
    c. **The Permitted Uses for Money Raised by a Levy**

The Power to Reduce the Multiplier in Multi-tier Areas

4. For multi-tier areas, a leading option is to provide for a multi-tier tax-setting approach. Districts and counties, boroughs and the GLA would all be considered “tax-setting” authorities, and would have the option of reducing the multiplier, including by joint agreement.

5. Costs would then fall to the decision taking authority. To give this effect, each tax-setting authority would have its power to reduce the multiplier capped in proportion with its share of retained business rates under the retention scheme. For example, if there were an 80/20 split in retained rates between a billing and precepting authority, the billing authority would be permitted to reduce the multiplier by up to 80%, and the precepting authority by up to 20%.

6. Local multiplier reductions would need to be disregarded for the purposes of redistribution within the sector. One way to do this would be to require authorities to continue to submit a nominal return based on what their business rates income would have been, were they charging the national multiplier.

7. Local government stakeholders have also suggested that existing local discount powers could be amended along similar lines, so that decision making powers are available to major preceptors as well as billing authorities, and each authority would pay for its own decisions.

The Government would need to set out the detail of such a scheme in primary and later in secondary legislation, including the provision of notice between

tiers when a decision is taken, and provision for payments between tiers. What other detail should the Government be considering at this stage?

What implications would the proposed system have for NNDR reporting, accounting and budgeting?

How could we treat Combined Authorities within such a system and how would decisions to reduce the multiplier interact with decisions by a Combined Authority to add an infrastructure levy?

The LEP Role in Approving an Infrastructure Levy

8. It has been announced that Mayoral Combined Authorities will be able to increase the multiplier by 2 pence per pound of rateable value for use on infrastructure (known as the infrastructure levy). This increase will apply only where LEPs have consented via the support of a majority of their business members. There are a number of design choices which arise from this announcement.

9. There are 39 LEPs across England. LEPs were established with two key objectives:

    a. to bring together business and civic leaders across a functional economic area to prioritise investment to where it will most effectively drive growth;
    b. to bring a strong business voice to local decision-making to drive sustainable private sector-led growth and job creation.

10. We envisage that the process for approval could mirror the process currently used for Business Rates Supplements (BRS). The Mayor of the levying authority would publish an initial prospectus setting out the proposal for the Levy, and obtain the approval of the LEP on that basis, and would then publish a final prospectus with the agreed parameters of the Levy to be introduced. Stakeholders have raised whether Mayors of levying authorities should also be required to consult affected ratepayers more widely as a part of this process, which could help to ensure that projects proceeded in a way which takes account of local business needs. Of course, Mayors themselves will be directly accountable to voters in their areas.

11. The information required for inclusion in a prospectus could be similar to that required under BRS. Currently, this includes a requirement to note whether planning permission has been granted, and include a copy of any permissions. **Should the legislation provide that no Levy can be charged until all relevant planning permissions have been granted for the project to which the Levy relates?**

12. In some cases, there may be multiple LEPs whose jurisdictions overlap but are not co-terminous with the Combined Authority. We propose that in such cases, the approval of each LEP would be required. **Do you agree?**

What are your views on the proposed role for LEPs in approving the Infrastructure Levy?

<u>The Permitted Uses for Money Raised by a Levy</u>

13. It has been proposed that Levy revenues should be used for infrastructure projects. By attaching the Levy to a defined range of uses, the intention is that the power will provide authorities with scope to fund the projects that will add most value, whilst providing protection for ratepayers against unnecessary increases.

14. 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.

15. Conversely, 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 which highlighted five long-term drivers of productivity growth: investment; skills; innovation; enterprise, and competition.[1]

16. Whatever the definition of infrastructure or economic development, there could also be an 'additionality' requirement, as there is under existing BRS arrangements. This means that any revenue raised must go towards spending which would not otherwise occur. This would protect the intention that the infrastructure levy should *not* be used to fund 'business as usual' services performed by local authorities.

What are your views on the options on paragraphs 14 and 15? Do you have a preference?

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