BUSINESS INTEREST GROUP: LOCAL TAX FLEXIBILITIES

1. Over Summer 2016, we consulted on two measures to enhance local tax flexibilities, the introduction of an Infrastructure Levy, and a power to reduce the local business rate multiplier. Both of these proposals were first announced by the former Chancellor at the Autumn Statement 2015. We are currently analysing consultation responses on these proposals, and discussing with Ministers how to approach the outstanding policy questions. This paper seeks to share an overview of consultation responses with the Group, and seeks the Group's views on these outstanding design and implementation questions.

2. The driving aim behind these proposals is to increase local authorities' flexibility and control over the levers to promote growth within their areas, be that by a structural reduction to business rate charges, or by levying a supplement on businesses to fund infrastructure projects to enhance the area's economic vitality and business environment.

Infrastructure Levy

3. The Infrastructure Levy proposal will allow the Mayors of Combined Authorities to add a supplement to business rates across their area of up to 2p in the pound, and to use the revenue to fund a specified infrastructure project. The Mayor will need to set out the full detail of the project, including cost and the duration the levy will be in place. Respondents supported the proposal that the Mayor should do this through a detailed prospectus. S/he will then need to follow a process for approving the introduction of the levy, which will be set out in legislation.

4. This proposal was broadly welcomed by consultees, although many thought the power should be extended from Mayoral Combined Authorities to all authorities. Whilst it is clear that many authorities would like to be able to take advantage of this measure to deliver on local infrastructure priorities, the Infrastructure Levy (IL), as distinct from the BRS power which does apply to all authorities, others argue that the IL is intended to recognise the particular position of elected Mayors of Combined Authorities.

5. The area that generated the most discussion was the **approval mechanism for a new** IL, specifically the extent of LEPs' involvement. A large number of respondents, from different sectors, were uncomfortable with the final power to approve an IL, as a tax-raising initiative, resting with member of the LEP, as an unelected body. Local authority respondents in particular argued that such a power should rest with a democratically elected and accountable individual (a Mayor) or body (a Council). Some business respondents would prefer to have a ballot of businesses to approve a new levy, akin to the requirements for introducing a Business Rate Supplement (BRS), whilst other respondents wanted to see a Mayor required to consult local businesses on their proposal. We are therefore considering whether alternative arrangements which seek to foreground the democratic legitimacy of an elected Mayor, whilst also ensuring a clear role for LEPs, as a body reflective of local businesses' views could be brought forward..

6. Local authority respondents were keen that the **definition of the "infrastructure"** that may be funded through a levy should be broad, with many thinking the definition used for the Community Infrastructure Levy - roads and transport; flood defences; educational facilities; medical facilities; sporting and recreational facilities and open spaces – would be appropriate. This definition also has the added benefit of being familiar. Business respondents largely preferred a narrower definition, and again looked to the BRS

legislation, which precludes BRS funds being used for housing, educational or health etc. facilities.

7. In terms of whether an MCA should be allowed to charge **multiple infrastructure levies**, the largest proportion of respondents – businesses and local authorities – agreed that they should, as long as their combined total did not exceed 2p in the pound. Each component of the IL should be used to fund a specific project.

8. We asked respondents their views on the **rateable value threshold** above which an IL may be imposed, and whether MCAs should have the flexibility to vary these in accordance with local rent levels, to ensure that they can all raise a viable amount from an IL, or if Government should set a rateable value threshold. Broadly speaking, local authorities were keen to be able to reflect rateable values in their areas in an IL, and business respondents wanted to ensure protections for small businesses.

Power to reduce the multiplier

9. The power to reduce the multiplier will allow local authorities to make a reduction to the national business rate multiplier and the national small business rate multiplier, which will be applicable to all hereditaments in their area.

10. This proposal received a cautious reaction at consultation, with many local authority respondents questioning whether it is a power they would use, and suggesting that giving them a flexibility to increase the multiplier would be more helpful. There was also discussion of the potential impact of a multiplier reduction on a neighbouring authority.

11. A key principle to emerge from the consultation was that **those choosing to reduce their multiplier should bear the financial impact of doing so.** This is obviously most relevant to two tier and combined authority areas, and we are now considering how this can most equitably be implemented, whilst ensuring that all authorities are able to exercise this flexibility.

12. Consultation respondents also expressed their views on how a local authority should be able to **return their local multiplier to the national multiplier level**, and whether Government should impose any capping of increases, or staggering of the return. Broadly, local authorities considered that, in order that they may consider reducing their multiplier, they would need the certainty of being able to return to the national level in a single move; whereas business groups expressed concern at the potential for a single, steep increase in business rate bills.