Systems Design Working Group: tax flexibilities update

Background

1. At Autumn Statement 2015, the Government announced that two new powers would be introduced.

2. The first is the power for local authorities to reduce the business rates multiplier. The second is for Combined Authority Mayors 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 a majority of the business members of the Local Enterprise Partnership (LEP).

Progress

3. An initial paper on tax flexibilities was tabled at the Steering Group on April 13. The Steering Group made comments on the paper and requested that the Systems Design Working Group (SDWG) consider the issues and policy implementation in more detail.

4. The SDWG has met twice to discuss these issues. The first was an initial pass at the relevant issues. At the second, local government and DCLG each presented more detailed papers on both the power to reduce the multiplier, and the infrastructure levy. That meeting was used to identify the key issues and options for policy implementation and also wider issues about where the policy could potentially be amended or extended.

5. For the **power to reduce the multiplier**, the broad key issues are:

    a. Which tiers of local government should be granted the power to set and vary the multiplier? How should costs be managed between tiers? This includes how the power might operate for combined authorities, fire authorities, and in London. There was broad agreement at the meeting that it might be sensible to give both the district and county, for example, and for whoever makes the policy decision to reduce the multiplier to bear the costs.

    b. What will the interaction be with local discount powers? Relatedly, will the multiplier reduction power provide a structural change “across the board”? There was general agreement at the meeting that the power to reduce the multiplier was a structural power to tailor the local tax regime while the local discounts powers were for more targeted relief.

   c. How will the multiplier be increased after a reduction? The meeting favoured giving total discretion to authorities.

6. Wider matters raised included whether safeguards should be provided to protect neighbouring authorities. At the meeting, an action was also taken by local government to produce a paper on overall design principles of the power.

7. For the **infrastructure levy**, the key issues are:

   a. How will the levy interact with existing Business Rates Supplement (BRS) powers? Officials confirmed that it was envisaged that the BRS would continue to exist outside Combined Authority areas, but that the levy mechanism would replace the BRS inside Mayoral Combined Authorities.
   b. Should Mayors have the freedom to set, or to not set, individual rateable value thresholds for the application of the levy?
   c. The approval of a majority of the business members of the LEP will be required in order for a levy to be raised. How will this be operationalized, including where the LEP and levying authority are not coterminous?
   d. Levy revenues will be used for infrastructure projects. How should infrastructure be defined, or should the permitted use go further?

8. The case was also made by group members that the powers could go further. This included extending the power to raise an infrastructure levy beyond Combined Authority Mayors. There were mixed views from authorities on whether LEP approval would give businesses too small or too large a role.

9. The LGA presented a paper on reforming business rates reliefs, which made the case for localising some or all reliefs.

<u>Next Steps</u>

10. We envisage that a summer consultation could set out the key issues and options for both new powers, along the lines outlined above. It could also float ideas for other options to amend the powers or extend them further.