Local Tax Flexibilities: extract from Steering Group minutes

The Steering Group agreed to consider the Local Tax Flexibilities paper next. Introducing the paper, Nicola Morton (Head of Local Government Finance, LGA) noted that at the same time the government announced 100 percent business rates retention they also announced new tax flexibilities for local government. Specifically, it was announced that local authorities will be able to reduce business rates, and Combined Authority Mayors will be able to raise business rates provided this is supported by their Local Enterprise Partnership (LEP).

Nicola raised a number of questions for discussion: Should all types of local authorities be able to reduce business rates? Should they be able to target reductions at certain types of businesses? How should these decisions be made in two-tier areas? Should LEPs be involved in these decisions as well as decisions about business rates increases? Should reductions be perpetual or time-limited? Should all types of local authorities have the power to increase business rates? Should there be safeguards to prevent tax competition between neighbouring areas? Has the existing 50 percent business rates retention led to tax competition between neighbouring areas?

In the discussion that followed, the Steering Group raised the following points:

- The importance of considering who is likely to benefit from a reduction in business rates under different circumstances. For instance, one can envisage circumstances under which a reduction is counterbalanced by a rise in rents so local business does not benefit.

- The question of how many local authorities use discretionary business rates reliefs at the moment. Attendees confirmed that very few choose to do so in the current financial and budgetary climate.

- The issue of whether Tax Increment Financing (TIF) of infrastructure projects is something that should be promoted through the reforms. Attendees noted that, if so, central government may need to underwrite risks.

- The value of different types of local authorities being able to raise the 2p levy on business rates for infrastructure spending, rather than only Combined Authority Mayors.

- The benefits of all types of local authorities being able to increase business rates, rather than only Combined Authority Mayors – provided a system of checks and balances is developed and implemented.

- The importance of engaging with a wide range of businesses when developing business rates reforms.

- The question of whether local decisions to help certain industries through business rates reductions will count as state aid. Attendees confirmed that this would not be the case.

- The question of whether the 2p levy on business rates for infrastructure spending can be levied in addition to increased business rates. Attendees confirmed that no decision has been made on this yet.

- It was confirmed that there has not been DCLG research on whether the existing 50 percent business rates retention has led to tax competition between neighbouring areas.

Action

Technical working group to consider, taking account of the discussions here and make proposals to the Steering Group.