SYSTEMS DESIGN WORKING GROUP
FLEXIBILITY TO VARY/REDUCE THE NNDR MULTIPLIER
PAPER PREPARED BY THE GREATER LONDON AUTHORITY

This paper does not represent any official policy of the GLA or Mayor of London.

Background

On 5 October the Chancellor announced that the national non domestic rate would be abolished and that local authorities would be granted the power to lower business rates. His precise words were:

'*We're going to abolish the uniform business rate entirely. That's the single, national tax rate we impose on every council. Any local area will be able to cut business rates as much as they like to win new jobs and generate wealth.*

It's up to them to judge whether they can afford it. It's called having power and taking responsibility'

Key Issues Arising from the Policy Which May Need to be Considered

The Government will need to consider how this policy will be implemented in practice and what constraints, checks and balances will need to be put in place to protect local council taxpayers, the interests of ratepayers and other local authorities which could be affected by exercise of the new powers.

Decisions will not only affect neighbouring authorities and major preceptors. In exceptional cases the multiplier policies of authorities with sizeable taxbases and/or making large tariff payments could have regional or even national implications.

There are a number of issues the Government and local authorities separately or collectively will have to take a view on:

- Will the government continue to set and publish a baseline national non domestic multiplier which authorities will vary their local rates against?;

- How and when would this be multiplier determined – via the local government finance settlement or earlier?;

- How would any notional national multiplier be uprated annually e.g. using RPI to 2019-20 and CPI from 2020-21 or could the government adopt a different mechanism?;

- Which tiers of local government will be granted the power to set and vary the multiplier i.e. will it be available to billing authorities only or also to major preceptors (county councils in two tier areas, Police and Crime Commissioners for fire and rescue services outside London and directly elected Mayors in London and combined authority areas)?;

- If a multi-tier tax setting approach is adopted would the share of the tax rate in year 1 for each 'tax setting' authority equate to their percentage share of business rates multiplied by the notional national multiplier or would another approach be required?;

- If the tax 'lowering' power is restricted to billing authorities what rights and powers of challenge would major preceptors have if they disagreed with the proposed tax rate. Would they simply have to be consulted or would there be a formal challenge mechanism?;

- Should the Secretary of State have intervention powers in exceptional circumstances – recognising that any safety net payment mechanism could be used to mitigate the effect of local decisions and that authorities would still need to meet their fixed tariff payments as now;

- What implications would the new system have for NNDR reporting, accounting and budgeting – for example would there need to be a review of the NNDR 1 reporting timetable to facilitate an earlier tax setting process and under a multi-tier approach would preceptors with tax setting powers be able to determine their own business rates appeals provisions (as an example) and other deductions?

Which Tier of Local Government Should have the power to vary the multiplier and how would this operate in two tier areas?

In terms of which tier of local government should set the multiplier there are a number of potential models – with different approaches potentially applying in different areas subject to local decisions:

- Billing authorities could have sole power to vary the multiplier (as applies currently for local council tax benefit policies and NNDR local discounts and discretionary reliefs) with major preceptors simply needing to be consulted?

- Major preceptors could set part of the rate in line with their share of business rates and billing authorities the remainder i.e. similar to precepting for council tax. This would have the advantage of avoiding potential disputes between different tiers of local government;

- Would the power also be extended to police and crime commissioners for fire services?

- sub regional multipliers could be set with groups of billing authorities (or indeed a combined authority) agreeing a single multiplier as part of a common local economic development or regeneration strategy regional model. This could however be delivered via collective agreement and not require legislation.

In addition **would billing authorities and/or preceptors have the power to set different multipliers in different parts of their area – for example to provide targeted support for economic development or for regeneration purposes or to recognise the relative economic strength of different localities?** This is permitted for the Community Infrastructure Levy – so why not business rates?

Extending the Power to offer Business Rates Discounts to Directly Elected Mayors and other Major Preceptors in addition to billing authorities

There has been relatively limited take up of the powers granted in the Localism Act 2011 to offer targeted discounts to private sector companies. If this power were granted additionally to major preceptors covering a larger area - who may be better placed to manage risk - is there the possibility that this power might be used more actively and frequently?

At present for example the Mayor of London – if he/she wished to implement a city wide set of targeted discount policies – would need to seek the agreement of the full Councils of all 33 London billing authorities even if he/she was willing to fund 100% of the costs. Similar issues would apply to directly elected Mayors for combined authorities.

Billing authorities would in this scenario retain the primary function of determining reliefs and offering discounts – but elected Mayors for combined authorities and in London, county councils and other preceptors would be granted this additional power on condition that they bore 100% of the costs incurred by billing authorities in terms of administration and lost revenues.

This would require a review of the 1988 Local Government Finance Act – including section 47 and potentially other elements of existing rating legislation.

Should major preceptors be given the power to offer business rates discounts to particular sectors or areas or companies – subject to state aid rules – for their share of business rates or indeed 100% of the rate subject to them bearing the costs incurred by billing authorities including any losses in revenue?

Should there be a mechanism permitting local authorities to Increase the Multiplier In addition to the infrastructure premium?

The Government has announced that elected Mayors in combined authority areas will have the power to apply an infrastructure premium – but it is less clear whether there will powers available for local authorities to increase the multiplier more widely.

For example **if an authority reduces its multiplier in one year should it have the power to reverse that decision the following year and increase this to the level of the notional national multiplier (e.g. the 2019-20 NNDR multiplier uprated by CPI?).** Would this reversal be able to be done in one year or would this have to be phased in over several years if the initial reduction in the multiplier were substantial?

Should authorities in other circumstances have a power to increase the multiplier – for example by no more than the percentage rise in their council tax or following a referendum of ratepayers?

CONCLUSION

This paper has intended to highlight a number of issues which the Government will need to consider in developing the legislative arrangements for the proposed new power for local authorities to lower the NNDR multiplier.

Are there any other issues that should be considered in relation to the power to vary the multiplier that are not covered above?