BUSINESS RATES RETENTION STEERING GROUP: LOCAL TAX FLEXIBILITIES

1. The Summer 2016 consultation on business rates retention sought comments on two measures to enhance local tax flexibility: a power for the Mayor of a Combined Mayoral Authority (MCA) to introduce an Infrastructure Levy; and a power to reduce locally the level of the 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 engaging with Ministers on how to approach the outstanding policy questions. <u>This paper shares an overview of consultation responses with the Group, and seeks the Group's views on these outstanding design and implementation questions.</u>

2. The driving aim behind these proposals is to increase local authorities' flexibility and control over the levers to promote growth within their areas, through a power to deliver a structural reduction to the business rate multiplier, or for Mayors of MCAs to levy 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 that 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 local authority respondents thought that the power should be extended from Mayoral Combined Authorities to all authorities to maximise the flexibility that they could have in delivering infrastructure. However, many noted that local authorities already had access to powers under the Business Rates Supplements Act (BRS), and that the IL is intended to recognise the particular position of elected Mayors of Combined Authorities. The interaction between the BRS and IL generated a wide range of comments. Many authorities expressed a desire to bring the two powers into alignment, possibly through amendments to the existing Business Rates Supplements Act rather than creation of a new power. Some authorities felt that this could most easily be achieved by removing from the BRS Act the requirement for a ballot. Businesses, conversely, largely took the view that an authority imposing an IL should not also have the power to raise a BRS.

5. The area that generated the most discussion was the **approval mechanism for a new** IL, in particular the proposed role of the Local Enterprise Partnership (LEP). A large number of respondents, from different sectors, expressed concern that the responsibility for effectively "signing off" a Mayor's proposal for an IL, as a tax-raising initiative, would rest with the business members of the LEP. 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). It was also noted that, in some areas, there were co-terminosity challenges where a number of LEPs might overlap the MCA. Some business respondents expressed concern that the business membership of the LEP did not necessarily represent the diverse range of business interests covering the wide physical area of a LEP. Some businesses suggested that an IL should only be taken forward after a ballot of businesses, akin to the requirements for introducing a Business Rate Supplement (BRS), whilst other respondents wanted to see a Mayor <u>required</u> to

consult local businesses on their proposal. We are therefore considering what alternative arrangements could deliver an effective balance between providing a clear role for LEPs, strong engagement and buy-in from local businesses, and also recognising the primary democratic legitimacy of an elected Mayor.

6. Local authority respondents generally were keen that the **definition of "infrastructure"** that may be funded through a levy should be broad, with many suggesting that 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 most appropriate. Some noted that this definition also had the added benefit of being familiar. Some business respondents preferred a narrower definition, more tightly focused on economic benefits 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 – both across 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. There should be complete transparency about each project and its contribution to the overall cost of the levy.

8. The consultation sought views on the **rateable value threshold** above which an IL migh be imposed. It queried whether MCAs should have the flexibility to vary these to reflect local conditions, which would help to ensure that they can all raise a viable amount from an IL, or whether Government should set a national 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 or greater control over reliefs would be more helpful. There was also discussion of the potential impact of a multiplier reduction on a neighbouring authority – for example introducing rates competition, and a potential race to the bottom.

11. A key principle to emerge from the consultation responses was broad agreement 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 maximising the opportunities for reducing the multiplier. Some respondents also noted the value that could be obtained from encouraging authorities to come to agreed decisions on reductions across their area.

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 and indicated a preference for a phased return to the national multiplier.