

Fiscal Devolution Update

Purpose

For discussion and direction.

Summary

This paper outlines proposed next steps to support the future development of policy related to fiscal devolution and seeks member input on the subject of an e-commerce levy.

Recommendation

Members of the Resources Board are asked to consider the proposed work plan set out below and comment as appropriate, with particular reference to further work on an e-commerce levy (paragraphs 11-18).

Action

Officers to incorporate Members' comments into the development of future work related to fiscal devolution, as described.

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Fiscal Devolution Update

Overview

1. The City Regions Board commissioned two pieces of research in the 2017/18 board cycle to support internal policy development and discussion related to fiscal devolution:
 - 1.1. **Fiscal devolution modelling** – the Board commissioned econometric modelling to provide members with an overview of what certain types of fiscal devolution might look like in practice.
 - 1.2. **Fiscal devolution messaging** – the Board also commissioned research to better understand public perceptions of fiscal devolution specifically and devolution generally. This research adds to the regular pieces of analysis that the LGA commissions, including polling of both residents and parliamentarians to gauge support for key policy proposals including those relating to devolution.
2. The People and Places Board and the Resources Board were kept informed of progress throughout the course of the year and all three boards have now discussed the findings of both pieces of research.
3. Following these discussions, the Chairs of the City Regions, Resources and the People and Places Boards have considered and agreed a work plan in three areas: acting on the findings of the devolution messaging report; progressing work on a tourism levy; and, exploring an e-commerce levy.

Acting on the Findings of the Devolution Messaging Report

4. The findings of the devolution messaging report clearly resonated with members of all three boards. It has therefore been agreed that officers will work with Board Chairs to draft a paper that raises this subject as an issue for formal consideration by the LGA's Leadership Board.
5. This work will build on short term supportive messaging within the Spending Review campaign plan and additionally take account of any lessons or evidence from the City Regions Board's ongoing Urban Leadership work and the People and Places Board's Post-Brexit England Commission.
6. Over the coming months, one of the strands of the Spending Review campaign will be to focus on explaining to the public the breadth of council services. Subsequently we will develop a plan of campaign activity over the next six to eighteen months that seeks to further highlight to the general public the expertise that exists within local government.
7. In the longer term it has also been agreed that the LGA will give consideration to broader questions relating to the public perception of local government's culture and character, and the complexities of accommodating differential public service responsibilities across localities and institutions within a coherent national brand.

Progressing Work on the Tourism Levy

8. There was strong interest from all three Boards in understanding in more detail how a tourism levy might work in practice. The Culture, Tourism and Sport Board has also explored this issue.
9. As the call for freedom to introduce a local tourism levy is already an established LGA lobbying position, it was proposed that any future work focuses on 'road-testing' the levy's theoretical and technical arguments within the wider context of councils' role in regulating and supporting the tourism industry. This work will also provide an opportunity to consider the extent to which Business Improvement Districts provide an effective vehicle to introducing a tourism levy within an area.
10. It was therefore agreed by the Board Chairs that the Culture, Tourism and Sport Board would be commissioned to take forward this work with the three other boards kept updated on progress.

Exploring an e-Commerce Levy

11. It has been recognised by members of Resources Board, the LGA's membership more widely, as well as various commentators that the current business rates mechanism does not provide for a fair burden of taxation for different types of business activity, in particular in terms of businesses with physical high street premises and businesses operating through a predominantly digital footprint.
12. As a result, both the City Regions Board and the Resources Board expressed interest in exploring the design and potential benefits of an e-commerce levy as a way to balance against business rates chargeable on traditional, physical premises.
13. In addition, the Environment, Economy, Housing and Transport Board has policy responsibility for town high streets, resulting in a particular interest in this issue.
14. Subject to consideration regarding resource availability, the Board Chairs suggested that the Resources Board should take this work forward with other relevant Boards (City Regions, People and Places and Environment, Economy, Housing and Transport) kept updated on progress.
15. This programme of work is likely to involve a significant amount of technical detail and analysis. **It is therefore proposed that, as a first step, a research specification is drafted for consideration by Lead Members of all four Boards**, with a view to commissioning external research in support of future lobbying activity. The timing of this work will need to be considered alongside existing commitments.

Budget announcements

16. On 29 November, the Chancellor announced that from April 2020, the Government will introduce a new 2 per cent tax on the revenues of certain digital businesses to ensure that the amount of tax paid in the UK is reflective of the value they derive from their UK users.

17. The LGA has called for measures to be taken on retailers who may not pay business rates on retail premises and we welcomed this as a first step. However, we believe a portion of the money raised from this measure should be used to fund local services and, in turn, are of the view that more needs to be done to develop the detail of how such a levy might benefit public services and local retail economies in practice.
18. However, this tax is aimed at a very narrow set of multinational digital businesses with a minimum UK-linked turnover of £500 million, and is set to bring the Exchequer approximately £400 million per year. While a welcome first step in rebalancing the tax burden, this stops short of the sort of e-commerce levy that the Boards have expressed an interest in.

Next Steps

19. Members of the Resources Board are asked to consider the proposed work plan set out below and comment as appropriate, with particular reference to further work on an e-commerce levy (paragraphs 11-18).
20. Officers will incorporate Members' comments into the development of future work related to fiscal devolution, as described.

Implications for Wales

21. There are no direct implications for Wales arising from this report. The Welsh LGA would lobby the Welsh Government regarding associated matters.

Financial implications

22. Where possible this work will be covered by the 2018/19 budget but the use of LGA reserves, subject to agreement by the LGA Leadership Board and Executive, might be required depending on the extent of the work programme regarding the e-commerce levy and the timing of this work.