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**To**            **Scrutiny Co-ordination Committee**

**Date**        **7<sup>th</sup> September 2016**

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**Subject**    **Business Rates Reform**

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**1 Purpose of the Note**

1.1 This note accompanies a short presentation on the national changes to Business Rates (BR) that are expected to be introduced from 2020 including 100% local retention of Business Rates. In addition to the brief overview within the presentation, this note discusses the potential financial impact on Coventry and discussion of key matters within the existing Business Rates system in relation to students and the university sector.

**2 Recommendations**

2.1 Scrutiny Co-ordination Committee is recommended to:

- 1) Consider the content of the report and appendix 1
- 2) Identify any recommendations for the appropriate Cabinet Member

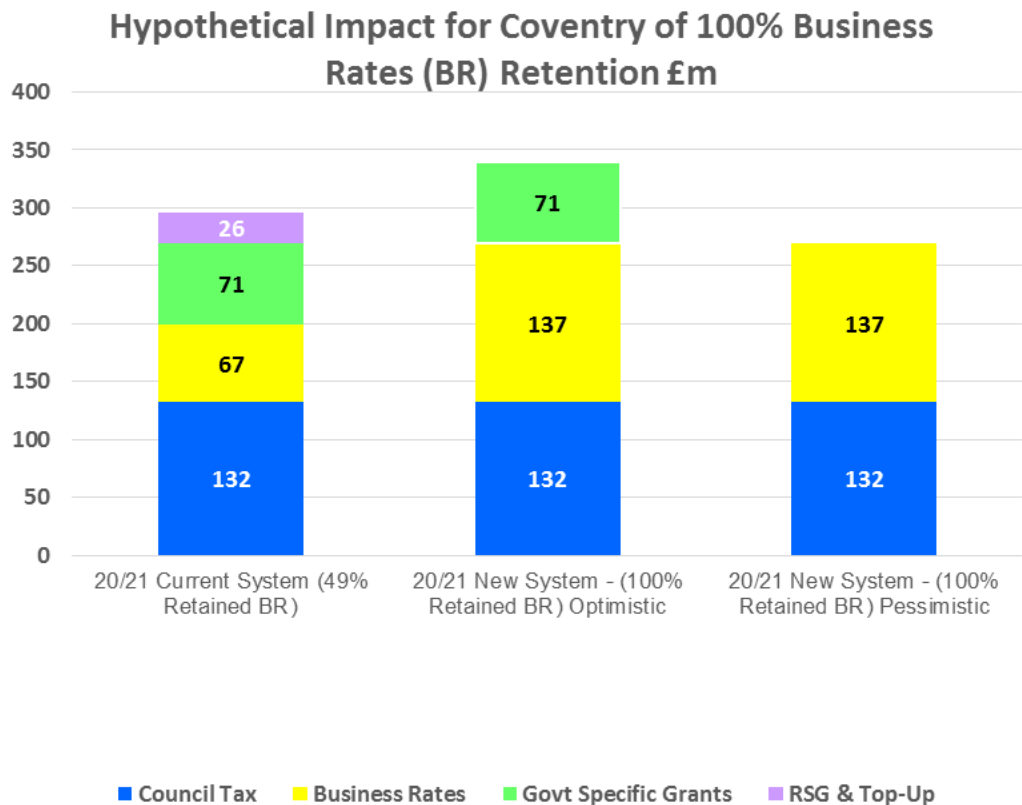
**3 Potential Financial Impact**

3.1 The fundamental change proposed by Government relates to local councils retaining 100% of BR income compared to the 49% retained currently. The Government is currently consulting on these changes and has invited views on the future running of the BR scheme. This covers a number of aspects that will influence the financial impact on local government as a whole as well as the allocation of funding between individual authorities. The outcome will dictate whether the early years of the changes result in a positive, negative or broadly neutral impact on Coventry's financial position.

3.2 Some of key financial aspects that are likely to be determined include:

- consideration of the overall quantum of resources the Government anticipates will be available within the overall local government finance system,
- a review of needs distribution which affects how resources are allocated between councils,
- the balance between rewarding councils for BR growth and protecting those that are less able to generate BR or are at risk of a declining BR tax-base,
- the balance of existing grants that the Government decides should be funded from within a 100% retention scheme.

3.3 The way in which these aspects are dealt with in the final scheme design are subject to significant discretion on the part of Government and it is impossible at this stage to predict the outcome. However, the model below attempts to show some of the factors that are involved and how these can affect the position.



- 3.4 The “20/21 Current System” position reflects the estimated trends of Government settlements and grant funding, local Council Tax and Business Rates resources within the existing system. This includes reductions in funding projected from the Government’s 4 year settlement.
- 3.5 The “20/21 New System-Optimistic” position adds on to this an estimate of Coventry’s share of central Business Rates under 100% BR retention. The unlikely scenario shown here is that Coventry receives these new retained Business Rates as an addition to existing specific grant resources. The very strong expectation is that this will not be the case.
- 3.6 The “20/21 New System-Pessimistic” position as shown would mean that all of the newly retained BR would be used to replace existing Government funding for RSG, Top-Up funding and specific grants. The implication of this is that local government would see no real benefit from 100% retained Business Rates which would just be replacing existing funding, potentially at a detriment to the overall funding position. This demonstrates the need to ensure that the key issues are considered properly as part of local government’s response to the BR consultation.

#### **4 University/Student Sector**

##### Council Tax

- 4.1 Properties that are used as a principal source of dwelling (including student lets, houses of multiple occupation and halls of residence) are dealt with as part of Council Tax rather than Business Rates legislation. This means that any properties providing student accommodation are not liable for a business rate charge.

- 4.2 Council Tax legislation allows for full time students to be exempt for Council Tax purposes. This means that any properties owned and rented out for the purpose of accommodating students are not subject to any Council Tax, providing that only students occupy the premises. These exemptions equate to approximately 3800 properties in the City, reducing the level of Council Tax revenue by around £3.2 million although these numbers can vary depending on the time of year that they are calculated.

#### Business Rates

- 4.3 The remaining (non-dwelling) properties owned by the city's 2 universities are covered by Business Rates regulations. The total rateable value of their combined properties is estimated at more than £13.5m resulting in an overall BR liability of £6.7m. As a result of the 80% (£5.3m) mandatory (charitable) relief available to the universities, their final BR bill amounts to £1.4m. Overall mandatory charitable relief for the city in 2016/17 (covering university and non-university properties) is c£12.7m.
- 4.4 Given the size of the university sector in the city the combined impact of Council Tax discounts and BR relief represents a significant financial impact on the City Council. In overall terms Coventry's mandatory charitable relief is 8.8% of the gross BR liability. However, on a national level mandatory charitable relief represents 9.6% of the gross BR liability. Although this does not break down between university and non-university sectors, it does indicate that Coventry is not proportionately disadvantaged by the level of mandatory relief granted in comparison to the national position. It is unlikely on this evidence that the impact on Coventry's local taxation position is disproportionately large compared with the position nationally.

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25<sup>th</sup> August 2016