
Cabinet Member for Strategic Finance and Resources

3 August 2017

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor John Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

All

Title:

Business Rates Discretionary Rate Relief Policy

Is this a key decision?

No

Executive Summary:

In April 2017 a national revaluation of business rates properties came into effect. Ratepayers who experience increased bills as a result of the revaluation are supported by a national scheme of transitional relief which phases the increased liability over a period of five years.

For the 2017 revaluation, the Government have announced additional support, beyond the national transitional scheme, for pubs, local newspapers, small businesses and rural businesses.

In addition, the Government have provided additional funding for Councils to set up their own schemes of discretionary support for businesses impacted by the revaluation – these are to be known as ‘local discretionary relief schemes’ (LDRSs).

The Department for Communities and Local Government (DCLG) have stipulated that all of the additional support will be administered through section 47 of the Local Government Finance Act 1988. Section 47 governs the use, by Councils, of discretionary reductions in business rates liability. The DCLG does not intend to introduce new

legislation to facilitate the additional revaluation support and therefore Local Authorities (LAs) wishing to implement the new schemes are required to amend their existing discretionary rate relief (DRR) policies.

The parameters governing the new support for rural businesses, local newspapers, pubs and small businesses are prescribed by DCLG and it is proposed the Council administer these schemes in line with the criteria laid out. The DCLG have not provided any guidance on how LDRSs should operate and LAs are free to design their own schemes of support.

Coventry is proposing a scheme of support based on the following principles:

- Support is provided to businesses occupying a property with a rateable value greater than £12,000 and not more than £100,000;
- The business should have an increased liability, after all other reliefs, including small business and pub relief, greater than 1 per cent as a result of the 2017 revaluation;
- The property is occupied;
- The following types of business are excluded from support:
 - Coventry City Council buildings
 - Buildings occupied by NHS bodies
 - GP surgeries and health centres
 - National and international companies
 - Banks
 - Betting shops
- Eligible businesses will receive a reduction in their bill in year 1 of the scheme totalling 100 per cent of their increased liability.

Recommendations:

The Cabinet Member Strategic Finance and Resources is recommended to:

1. Approve the amended DRR policy included at appendix 1;
2. Delegate authority to the Director of Finance and Corporate Services to approve the specific parameters and percentage thresholds of the final scheme;
3. Delegate authority to the Director of Finance and Corporate Services to review and adjust, following consultation with the Cabinet Member Strategic Finance and Resources, the scheme in the first and subsequent years in response to fluctuations in forecast levels of spend against the funding;
4. Delegate authority to officers to make decisions in respect of reliefs provided in accordance with section 47 of the Local Government Finance Act 1988.

List of Appendices included:

Appendix 1 – Proposed Discretionary Rate Relief policy

Appendix 2 – Proposed West Midlands Combined Authority principles

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: Business Rates Discretionary Rate Relief Policy

1. Context (or background)

- 1.1 In April 2017 a national revaluation of business rates properties came into effect. Ratepayers who experience increased bills as a result of the revaluation are supported by a national scheme of transitional relief which phases the increased liability over a period of five years.
- 1.2 For the 2017 revaluation, the Government have announced additional support, beyond the national transitional scheme, for pubs, local newspapers, small businesses – supporting small business relief (SSBR) and rural businesses.
- 1.3 In addition, the Government have provided additional funding for Councils to set up their own schemes of discretionary support for businesses impacted by the revaluation.
- 1.4 The Department for Communities and Local Government (DCLG) have stipulated that all of the additional support will be administered through section 47 of the Local Government Finance Act 1988. Section 47 governs the use, by Councils, of discretionary reductions in business rates liability. The DCLG does not intend to introduce new legislation to facilitate the additional revaluation support and therefore Local Authorities (LAs) are required to amend their existing discretionary rate relief (DRR) policies.
- 1.5 The parameters governing the new support for rural businesses, local newspapers, pubs and small businesses are prescribed by DCLG and it is proposed that the Council administer these schemes in line with the criteria laid out. The DCLG have not provided any guidance on how LDRSs should operate and LAs are free to design their own schemes of support.
- 1.6 In designing LDRSs, the DCLG require LAs to consult with major precepting authorities and Combined Authority members.
- 1.7 In total, the DCLG have made available £300 million of support for LDRSs. Coventry's share of the £300 million is set out in the table below:

Coventry's share of the national funding for LDRSs

Year	2017/18	2018/19	2019/20	2020/21
Funding (£000)	422	205	84	12

- 1.8 The funding is allocated on the basis of the number of properties within the LA area with a rateable value of less than £200,000 who have at least a 12.5 per cent increase in their bill as a result of the revaluation. The DCLG have yet to confirm whether LAs will be able to carry forward funding between years. In addition to the core funding the DCLG have confirmed new burdens funding will be made available

to LAs to compensate for the costs of administering the new schemes. The level of funding is yet to be determined.

- 1.9 LAs will be compensated directly for expenditure in respect of the specific rural relief, local newspaper relief, pub relief and small business relief and this is in addition to the £300 million. All of the reliefs are being administered in accordance with LA discretionary powers and therefore the LA is not obligated to award reliefs. However, the DCLG have made clear that, because the reliefs are fully funded, they expect LAs to exercise their discretionary powers. Equally, it is clearly in the interests of local businesses and the wider local economy that the Council utilise this funding as far as possible.

2. Options considered and recommended proposal

Newspaper relief

This relief is provided in respect of office space occupied by local newspapers. The relief is £1,500 per annum for two years from April 2017. The relief is limited to one award per local newspaper and is subject to state aid rules. One eligible business has been identified in Coventry.

Pub relief

- 2.1 The pub relief scheme is available to establishments providing the facility to purchase alcohol, without the need to purchase food, to people who can walk in off the street. The relief is limited to premises with a rateable value of less than £100,000. State Aid rules will apply and so the Council will not provide relief to national chains. The relief consists of a one off reduction of £1,000 from their annual bill in 2017/18.
- 2.2 The parameters of this scheme are set out in guidance by the DCLG in the Council has no discretion in respect of the operation of the scheme. The DCLG have stipulated that the relief should be provided in accordance Council's discretionary section 47 powers and therefore the Council is not statutory bound to provide the relief. Nevertheless, awarding the relief is beneficial for local businesses and the wider local economy and is cost neutral to the Council and therefore the revised DRR policy provides for this type of relief on the basis stipulated by the DCLG.
- 2.3 It is expected around 140 pubs could qualify for the relief attracting a maximum of £140,000. The Council will write to all eligible pubs informing them of the award and requesting that they respond to the Council in the event that they do not deem themselves to be eligible. There will be an online application form for any pubs who do not receive an award but feel they meet the criteria.

Supporting small business relief

- 2.4 In 2016/17 businesses occupying properties with a rateable value of less than £6,000 are entitled to 100 per cent small business rates relief (SBRR). Those with rateable values between £6,000 and £12,000 were entitled to tapered relief. The Government have, from 1 April 2017, increased these thresholds to £12,000 and £15,000 respectively.

- 2.5 Those businesses who, owing to the revaluation, lose their entitlement to small business rate relief – i.e. those whose rateable value increases to more than £15,000 – will be eligible to receive SSBR. SSBR is a five year scheme and will limit the increase for eligible businesses to the greater of:
- A percentage increase per annum of 5%, 7.5%, 10%, 15% and 15%
 - A cash value of £600 per annum
- 2.6 Businesses will remain in the scheme for five years or until they reach the bill they would have paid without the scheme.
- 2.7 As with pub relief, the Council is under no statutory obligation to award the relief but the relief will benefit local businesses and has therefore been included in the amended policy.
- 2.8 The Council is reliant on our software provider to provide technical changes to the revenues database before this relief can be administered. It is expected that these changes will be made in August 2017 and awards will be made in September 2017. Initial forecasts suggest approximately 57 businesses will benefit to the value of approximately £62,000.

Local discretionary relief schemes

- 2.9 The DCLG have made clear that LAs are free to design their own schemes of support. The only stipulation the DCLG have made is that LAs should consult preceptors and Combined Authority members. West Midlands Combined Authority (WMCA) members have agreed to design schemes which satisfy nine overarching principles – these are detailed in appendix 2. The Council's proposed scheme satisfies these principles.
- 2.10 In liaising anecdotally with other LAs, the Council identified three broad approaches to the design of a LDRS.
- An open, application based scheme reviewing the individual circumstances of each applicant based on the level of increase experienced and their financial circumstances;
 - An allocative scheme providing relief at a fixed percentage of the increased bill awarded to companies subject to a minimum level of increase and a maximum rateable value;
 - Replicate the funding parameters and allocate to businesses with an increase of 12.5 per cent and a rateable value less than £200,000.
- 2.11 The Council's proposed approach involves a combination of approaches two and three. The proposal is to award relief to companies on the following basis:
- Support is provided to businesses occupying a property with a rateable value greater than £12,000 and not more than £100,000;

- The business should have an increased liability equal to or greater than 1 per cent as a result of the 2017 revaluation – the increase will be calculated following the award of any other reliefs including pub relief and SSBR;
- The property is occupied;
- The following types of business are excluded from support:
 - Coventry City Council buildings
 - Buildings occupied by NHS bodies
 - GP surgeries and health centres
 - National and international companies
 - Banks
 - Betting shops
- Eligible businesses will receive a reduction in their bill in year 1 of the scheme totalling 100 per cent of their increased liability;
- The Council will aim to allocate between 90 and 95 per cent of the funding in each of the four years. The residual 5 - 10 per cent is intended to mitigate against the risk of overspending at a cost to local tax payers and to provide some capacity for the Council to consider ad hoc awards on an exceptional basis.

2.12 It is proposed that each business receives a 100 per cent reduction in the increased element of their 2017/18 bill. That percentage is derived so that the overall award allocates between 90 and 95 per cent of the funding for 2017/18. The same methodology would then be applied in the subsequent three years with the allocation reduced accordingly. In simple terms if a 100 per cent reduction allocates 95 per cent of the year 1 funding of £422,000 then in year 2 a 50 per cent reduction would allocate approximately 95 per cent of the £205,000 funding. The precise allocation for future years cannot be calculated until near the time when we know whether funding can be carried over between years and we can take account of the tax base as it is then as some companies will move on and no longer qualify for relief.

2.13 The Council will exclude national and international companies that are likely to be affected by State Aid rules.

2.14 The proposed approach has the following advantages:

- It avoids the administrative complexity, for both the Council and businesses, of having to undertake an application process and deal with the provision of information;
- It focusses a greater share of the funding on properties with a lower rateable value and thus smaller businesses;
- It aids Council forecasting to ensure that we both maximise expenditure to support local businesses but also reduce the risk of overspending at a cost to local taxpayers.
- The award will be applied after pub relief and SSBR therefore maximising the local retention of Government funding.

2.15 Current forecasts suggest the proposed approach will result in the following:

- Approximately 560 businesses would benefit
- The initial forecast allocation is approximately £395,000 (94 per cent of year 1 funding of £422,000)

3. Results of consultation undertaken

- 3.1 The framework agreed by West Midlands Combined Authority members is included at appendix 2 and the Council's proposed scheme satisfies those criteria.
- 3.2 The Council has maintained dialogue with colleagues at the Federation of Small Businesses who have been broadly supportive of the Council's proposed approach.
- 3.3 The Council has written to major preceptors but has not received a response at the time of writing.

4. Timetable for implementing this decision

- 4.1 It is proposed that the amended policy come into effect immediately. The administration of SSBR is reliant on the Council's software provider Capita making relevant changes to the revenues system. The timescale for this is beyond the control of the Council and it is likely that the relevant software release will be installed in September 2017.

5. Comments from Executive Director, Place

5.1 Financial implications

In respect of pub relief and SSBR, the Council will be fully compensated for foregone business rates revenue by way of a grant paid under section 31 of the Local Government Act 2003. This expenditure is demand led and there is no limit on the amount that the Council can reclaim from central government.

The funding for LDRS, again paid under section 31, is capped on an annual basis. Expenditure beyond the annual cap will represent a net cost to the Council in terms of foregone business rates revenue. The Government is yet to confirm whether underspends may be carried forward between years. The Council will be compensated only for actual reliefs granted up to the level of the cap and so the overall resource impact on the Council will be cost neutral providing the cap is not exceeded.

5.2 Legal implications

The proposed amendments to the DRR policy would be administered in accordance with section 47 of the LGFA 1988. This provides the statutory basis upon which LAs may provide discretionary relief to business rates payers.

Challenges to the scheme would take the form of initial complaint to the Council and ultimately through Judicial Review.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The measures provide support for a range of businesses within Coventry which will support the local economy, protect jobs and help to foster economic growth. The measures support the Council's objectives in respect of promoting the growth of a sustainable Coventry economy.

6.2 How is risk being managed?

The forecast expenditure against funding is based on analysis of the business rates database at a point in time. If there are retrospective changes to properties this may impact on the level of expenditure and ultimately result in the Council spending beyond the cap at a cost to local tax payers. The Council aims to allocate 95 per cent of the funding in each year to help mitigate against the risk of overspending.

6.3 What is the impact on the organisation?

The Government have confirmed that new burdens funding will be made available to LAs to reimburse the additional cost of administering the proposed schemes. The final amount of funding is yet to be confirmed. The revenues service will deliver the schemes within existing resources.

6.4 Equalities / EIA

No impact

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

No impact

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