

Name of meeting: Cabinet

Date: Cabinet 11 July 2017

Title of report: Discretionary Business Rate Relief – 1st April 2017

Purpose of report:

To set out a number of options that could be implemented for the discretionary business rate relief scheme in respect of this year and subsequent years for Cabinet to consider and to make a decision on the option they propose to adopt.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)?</u>	Yes 26 th April 2017
The Decision - Is it eligible for "call in" by Scrutiny?	Yes
Date signed off by Director & name	
Is it also signed off by the Service Director, Finance and Transactional Services?	Yes
Is it also signed off by the Service Director, Legal, Governance and Commissioning ?	Yes
Cabinet member portfolio	Cllr Graham Turner

Electoral wards affected: All

Ward councillors consulted: N/A

Public or private: Public

1. Summary

At the March Budget, the Chancellor announced that the Government would make available a discretionary fund of £300 million over four years from 2017-18 to support those businesses that face the steepest increases in their business rates bills as a result of the 2017 revaluation.

The intention is that every Local Authority will be provided with a share of the funding to support their local businesses and this will be administered through the discretionary relief powers under section 47 of the Local Government Finance Act 1988.

DCLG published a consultation on 9th March 2017 covering the methodology for distribution of the available funding between Local Authorities. This consultation closed on 7th April 2017.

The grant is subject to the condition that billing authorities consult their major precepting authorities before adopting a new scheme.

DCLG will announce in Quarter 2 of 2017/18 whether flexibility should be provided to Local Authorities to allow funding to be moved between financial years but there is a risk that if the money is not spent in year that it will be lost.

2. Information required to take a decision

- 2.1 The DCLG announced on 2nd May that West Yorkshire Councils are expecting to receive the following compensation. In terms of the funding being transferred to each council this will be 50% of the sum below representing the business rates income retained locally.

West Yorkshire distribution of £300m discretionary pot				
	2017/18 (£ '000)	2018/19 (£ '000)	2019/20 (£ '000)	2020/21 (£ '000)
Calderdale	317	154	63	9
Kirklees	577	280	115	16
Wakefield	834	405	167	24
Bradford	998	485	200	29
Leeds	1,688	820	338	48

Estimated Sec 31 grant - West Yorkshire distribution (50%)				
	2017/18 (£ '000)	2018/19 (£ '000)	2019/20 (£ '000)	2020/21 (£ '000)
Calderdale	158	77	32	5
Kirklees	288	140	58	8
Wakefield	417	203	84	12
Bradford	499	243	100	15
Leeds	844	410	169	24

- 2.2 Government wants authorities to only provide support to those ratepayers who are facing an increase in their bills following the 2017 revaluation; increases in rates following a revaluation are phased in over 4 years under the national transitional relief scheme.

- 2.3 The £300m Government funding has been distributed based on two criteria; the size of the property and the increase in rates they are facing.

1. the rateable property has a rateable value for 2017-18 that is less than £200,000;
2. the increase in the rateable property's 2017-18 bill is more than 12.5%

- 2.4 The funding is intended to provide short term financial relief and provide a targeted approach. At this stage the government hasn't confirmed its intentions in relation to any in year underspend. There is consequently a potential risk that the council could lose this funding if a scheme isn't brought forward. In addition resources haven't been provided for system and administrative activities. These factors have therefore heavily influenced the development of our approach.
- 2.5 The 2017 revaluation of 15,536 business rates properties in Kirklees has affected the properties in different ways depending on the operating business and the valuation office descriptions of the property; for information we have 103 different property descriptions within the valuation list.
- 2.6 All national, statutory reliefs, reductions and exemptions will be applied before any calculation for a local scheme can be considered. It's also worth noting that an empty shop can be fully exempt from rates in certain circumstances i.e listed buildings etc.
- 2.7 None of the West Yorkshire Council's intends to award more than the maximum grant from the Government, although there is an inherent risk in accurately modelling the criteria for any scheme and the amount to be awarded. Any shortfall in funding would need to be met by the Council.
- 2.8 A number of options have been considered and the following report sets out the pros and cons before making recommendations on the preferred way forward;
- 1) A targeted area based approach
 - 2) A qualitative approach to engage companies in key sectors of the local economy.
 - 3) A West Yorkshire transitional relief scheme
- 2.9 **Options 1 Area based approach**
- 2.9.1 A scheme based on targeted area based approach by postcode or street level would be simple to administer and the associated costs easily calculated.
- 2.9.2 However as an area contains a wide mix of businesses with various valuation office property descriptions (e.g. retail, post office, office and premises, restaurants, shops, stores, showrooms, offices, car parking, amusement arcades, betting shops, theatre ,markets, hairdressing salons, other commercial, other miscellaneous, etc. etc.) this scheme could have unintended consequences. The 2017 revaluation has affected these differently; some businesses on a typical street will have no rates payable, some will have reduced bills and some will see an increase in rates payable. Therefore, a blanket award to a street or area would appear to be contrary to the aim of the funding.
- 2.9.3 We also know for example that the business rates payable in Kirklees overall have reduced by approx £7.7m compared to last year; and within

this retailers in Kirklees have seen an overall reduction in rates payable of £2.1 million pounds.

2.9.4 The complexity of deciding which businesses would be awarded relief and what the criteria might be, adds considerable risk to the scheme. Neither does it provide a mechanism for introducing a financial cap. In estimating the costs of operating this scheme we looked to a similar application scheme when responding to businesses during the floods of 2015/6 and this took 4-6 part time staff and input from the accountancy team.

2.9.5 It should also be noted that there is a statutory appeal system and therefore any system we develop would need to be clearly set out and transparent in order to avoid or minimise the risk of challenge on the grounds of equity from similar businesses within or across West Yorkshire. Any challenges could result in a refund to the applicant and wider claims for relief at a point in time when the resources have already been utilised.

2.10 Option 2 A qualitative approach to target key sectors of the local economy e.g. advanced manufacturing sector.

2.10.1 This government funding allows the opportunity to make a positive statement to certain sectors and provide a time limited financial incentive for those businesses.

2.10.2 However a relief scheme would need to be devised to define those businesses in scope for relief as the businesses rates system does not contain a property description for advanced manufacturing companies. This would require time to develop and test to ensure it is deriving the intended impact. Such as delay would impact on the business liquidity as the full business rates debit is currently being collected.

2.10.3 It would also be cumbersome to administer requiring applications to be manually considered, approved and processed. This would require officer time to develop which hasn't been provided for within the discretionary fund. It would also be difficult to cap the financial cost to the authority.

2.10.4 This would create a delay in providing business relief and considerable risk to the scheme as the resource is time limited. It should also be noted that there is a statutory appeal system and therefore (as already set out above) any system we develop would need to be clearly set out and transparent in order to avoid or minimise the risk of challenge on the grounds of equity from similar businesses within or across West Yorkshire. Any challenges could result in a refund to the applicant and wider claims for relief at a point in time when the resources have already been utilised.

2.11 Option 3 - West Yorkshire (WY) transitional Scheme

2.11.1 The West Yorkshire Councils have been examining the possibility of a regional scheme with the following design features of the existing national transitional relief scheme;

- a) This scheme should be simple to administer and keeping the scheme simple will minimise the burden, whilst also making it easy to understand for ratepayers. It would offer a consistent approach across all Kirklees as well as neighbouring Councils and help target money at those businesses intended by the funding.
- b) There is a national transitional relief scheme which already provides some protection for ratepayers having increases in rates payable depending on the size of their property. Three bands are used to do this, small, medium and large.
- c) It is proposed to allow relief to those RV's in the small and medium bands as most properties fall within these, and on the basis that business with large properties may be better placed to absorb the steep rise in rates.
- d) It matches the Governments ambition that relief is only available to smaller ratepayers. For Kirklees this would be approx 1,728 business ratepayers. See table below.
- e) The joint West Yorkshire scheme should minimise the risks associated with a legal challenge as the main criteria have already been established, and it may be that any cost of defending the scheme (if applicable) could be shared.
- f) The table below shows how much could be awarded, with some assumptions about those likely to fail under these rules. See also additional criteria agreed for WY scheme – **Appendix 1**.

Rates Increase greater than zero	Business Rate Relief Scheme	Value £	Accounts
	Medium	£624,301.19	459
	Small	£506,798.44	1269
Cost	full protection	£1,131,099.63	1,728
Protection	Option 3 - 50%	£565,549.82	
Excludes state aid, Council, Police and Fire (Sec 47), health and State Schools			

3. Implications for the Council

3.1 Early Intervention and Prevention (EIP)

This proposal does not directly impact on outcomes for EIP, but it should help sustainability of income for some residents who are employed by the benefiting organisations and sole traders in the Kirklees area.

3.2 Economic Resilience (ER)

Quickly allocating the local business rate relief funding under a simple administrative system should help the sustainability of local businesses and Jobs in Kirklees. There could potentially be some additional benefits to be

realised by using either the area or sector based approaches but these are difficult to quantify without further detailed analysis of the relevant data and would need to be considered in the light of some of the administrative and resource issues considered in this report.

3.3 Improving Outcomes for Children

This proposal does not directly impact on outcomes for Children.

3.4 Reducing demand of services

There should be less avoidable contact as there will be less business rates to collect.

The award of additional grant should reduce the level of debt within business generally as well as ensuring more money circulates in the Kirklees economy.

A more targeted approach would require some administration costs to be funded.

3.5 Equality Impact Assessment

This allocation of grant income should not adversely affect any groups in Kirklees and the awards are for existing business and sole traders.

3.6 Financial, Legal and Other Implications

The Financial implications are as set out in 2.1 & 2.11 above

The modelling for the Local West Yorkshire transitional relief scheme is shown in 2.11 above, and criteria in Appendix 1

There are no specific legal implications other than those set out in the sections above and below (consultation)

4. Consultees and their opinions

There is a legal obligation to consult with the Police and Fire Authorities; this is being undertaken already on a West Yorkshire basis

The Fire authority has responded and their response is copied below;

“The Authority is dependent on income from Business Rates to fund service provision and would only support a scheme that does not impact on the Authority’s financial position”

5. Next steps

- Agree the final criteria for the West Yorkshire business rate relief scheme across West Yorkshire.
- Complete the consultation with major preceptors
- Contact the IT provider and undertake system testing on the new scheme.

6. Officer recommendations and reasons

1. For Cabinet to approve option 3 - A local West Yorkshire transitional relief scheme as the preferred option.
2. That the Service Director for Finance, IT & Transactional Services is given delegated responsibility to conclude the preceptor consultation exercise and assuming a positive response from the Police consultation exercise to put in place all the relevant steps to enable the Council to implement the new business rate relief scheme.

7. Cabinet portfolio holder recommendation

The portfolio holder supports this development of a West Yorkshire Business relief scheme as outlined in Option 3. Officers have also been asked to review the existing start up and retention policy with a view to establishing whether it can be improved and increased take up.

8. Contact officer

Steve Bird - Head of Welfare and Exchequer Services

9. Background Papers and History of Decisions

None

10. Assistant Director responsible

Debbie Hogg, Service Director for Finance, IT & Transactional Services

Appendix 1 - Additional West Yorkshire Scheme Criteria – Option 3

Q. Why is the local West Yorkshire Transitional Relief (TR) scheme only for small and medium RV properties?

- Councils are looking for a simple scheme that is easy to administer
- The WY scheme mirrors the existing TR statutory thresholds for small and medium properties.
- The criteria matches the Governments ambition that relief is only available to smaller sized ratepayers (This assumes that business with large properties may be better placed to absorb the existing TR rise in rates without additional support.)
- The % awarded across WY Councils (in year 1) should be the same or very similar based on the agreed criteria and design principles.

Q. What % relief would be awarded to small and medium businesses?

Q. How will different funding levels be dealt with each year?

- The WY Councils (in year 1) are all seeking to award 50% of any rise in business rates following the award of all other reductions and reliefs, i.e TR, Pubs, SBR etc.
- All WY Councils reserve the right to amend this % awarded (in year; and at for each new financial year) based on any additional information, the level of grant funding and/ or legislative guidance.

Q. Are any properties specifically excluded from the WY scheme?

- State schools are excluded due to section 47 of the of the Local Government Finance Act 1988
- Police and Fire authority premises are also excluded under section 47 of the of the Local Government Act 1988
- Empty properties are excluded from the WY scheme; therefore relief can only be awarded if the property if occupied and trading
- Large RV properties as defined by the existing national TR scheme are excluded.
- Multi-National companies have been excluded due to the State Aid restrictions.

Q Will the relief end if the occupier changes in a property?

- The relief would follow a property, i.e. new occupiers would also receive the relief up to 31 March

Q. Will business rate accounts be adjusted after the relief is awarded if there is a change in circumstances? (i.e. backdate RV reductions, additional relief awarded, or property vacated etc.)

- Yes the business rate charge will be amended due to any changes in circumstances where it would affect the level of relief awarded. The effective date would be the date of change.

Q. Can awards be made for the same company with more than one property?

- Yes the proposal is to award a set % for all increases in Rates after all reductions and reliefs have been awarded.

- Companies are however responsible for notifying the WY Councils if State Aid rules should apply.

Q. What will happen if we don't spent or use up all of the proposed funding?

- The government have not confirmed if underspends will have to be repayed or if they can be moved between years. This will therefore be determined later in the year.