

BUSINESS RATES

1 Purpose

- 1.1 In response to a request from the Committee this report provides an explanation of the business rates system, how councils currently gain from it, how it might change in the future and how it is used to support local businesses.
- 1.2 Committee are requested to consider the system, its support mechanisms and the tensions within it and, if appropriate, make any recommendations to the appropriate Cabinet members for their consideration.

2 Recommendations/for decision

- 2.1 Give high level consideration to the system of Business Rates in terms of how it operates in support of local businesses and, if appropriate, make comments to the relevant Cabinet member for consideration as part of future scheme development.

3 Background

- 3.1 Business rates are a tax based on property values and help pay for public services. Business rates are charged on all non-domestic properties (e.g. shops, offices and factories) that do not qualify for an exemption and are normally payable by occupiers of premises, rather than owners. However, where properties are empty, the property owner may be liable for business rates. Business rates in England raise around £24 billion a year from around 1.8 million non-domestic properties.
- 3.2 Business rates are calculated according to a property's 'rateable value' which is set by the Valuation Office Agency (VOA) for each non-domestic property in England. Rateable Value is an amount equal to the annual rent for which it is estimated a property might be let at a set date. A business rates bill is worked out by multiplying the rateable value of a property (set by the VOA) by the business rates multiplier (set by central government) and then applying reliefs the ratepayer is eligible for, which can include transitional relief.
- 3.3 The system of mandatory reliefs is determined by central Government and currently this gives 80-100% relief to charities and small businesses. The system of mandatory reliefs has recently used to extend reliefs to other organisations in accordance with Government policy objectives, such as smaller retail properties and empty shops.
- 3.4 The valuation date is currently set at two years before the revaluation comes into effect. This is to allow the VOA time to collect rental evidence, prepare valuations and consult with ratepayers. It includes six months for ratepayers to check their rateable value and prepare for changes to their rates bills. This approach ensures rateable values are based on evidence and ratepayers are given advance warning of changes to rates bills.
- 3.5 Revaluations normally take place once every five years. The purpose of a revaluation is to align rateable values with current rental values set by the

market. As a result, revaluations reflect relative changes in the rental value of property between different sectors and locations, so that the total business rates bill is shared fairly across ratepayers.

- 3.6 A revaluation does not raise any extra revenue. Its aim is to redistribute the amount businesses pay based on changes in the rental market i.e. rises and falls in the rental value of the property. To maintain the revenue raised through business rates at roughly the same amount when rateable values are changed at valuation, the government adjusts the business rates multiplier (the tax rate) either up or down. If the rateable value of a property falls by more than the national average at valuation, the rates bill for that property will see a decrease. However, if a property's rateable value falls by less than the national average, its rates bill will increase.
- 3.7 The most recent revaluation came into effect on 1 April 2010 and is based on rateable values set at 1 April 2008. In 2012, the government postponed the revaluation due in 2015 until 1 April 2017 in order to provide greater stability for businesses during a period of economic difficulty. The next revaluation is currently underway and will come into effect in April 2017.

4 The Current System

- 4.1 On 1 April 2013 a new system of business rates retention (BRR) began in England to reward local authorities for increasing and supporting the businesses in their area. Local authorities are now able to retain up to 50% of the income they collect from business rates.
- 4.2 The current BRR scheme was introduced in April 2013. It allowed local government to retain 50% of business rate revenues, with the remaining 50% retained by central government. In order to equalise between areas with different amounts of business rate income there is a system of top ups and tariffs in place.
- 4.3 Because Business rates are mainly collected by lower tier councils (districts) but grant is mostly required by upper tier councils (counties) most districts hand over most of the business rates they collect in the form of 'tariffs', whilst most counties receive 'top-ups'.
- 4.4 Under the previous system, local authorities collected the business rates but paid them into the Treasury which then redistributed them back via a formula known as formula funding.
- 4.5 The current system allows for councils to benefit from the economic growth in their areas and incentivises them to promote business growth generally. Equally, councils will lose resources from under investment which results in businesses closing or relocating outside of their areas.
- 4.6 Most Business Rates under the current system are still either captured by central government or redistributed nationally within local government as a whole. Locally, Aylesbury retains somewhere in the order of 6% of the £50 million of business rates payable in the area.
- 4.7 However, at the margins of the system Aylesbury Vale is allowed to capture 40% of new growth above a baseline determined annually by Government and loses 40% of any reduction in business rates below that baseline.
- 4.8 Those councils which do see business rates growth are further required to pass an additional half of their 40% growth share to central government in order to provide a safety net fund to protect those councils which lose more

than 7.5% of the business rate income in any year. Therefore, the effective rate of growth retention at the margin is only 20%.

- 4.9 There are opportunities within the current system to retain larger shares of growth locally through mechanisms such as Pooling and through Enterprise Zone designation.
- 4.10 The system, whilst offering some financial incentive to promote economic growth within an area is complex and fraught with risks to the income streams over which local authorities have only limited control. These shortcomings in the current system might be identified as;
- The valuation appeals system
 - The marginal level of gain
 - The distribution of rewards and risk between the tiers of Government
 - The risks in the system represented by major employers
 - Resets in the system and the short period over which gains are retained

5 Proposals for a New System of Retention

- 5.1 The current government confirmed at Autumn Statement 2015 that it intends to move to local government retaining 100% of its business rates by 2020.
- 5.2 In the face of only limited gain under the existing system, this was something that local government as a sector had been pushing for and so broadly welcomes.
- 5.3 However, there are significant challenges inherent in designing such a system which need to be carefully considered and modelled before a detailed design can be produced. The Government is currently consulting on these high level design principles with a view to designing a detailed scheme for consultation later this year.
- 5.4 The key areas of discussion associated with the proposals are set out in the following paragraphs;
- 5.5 Retained Business Rates will in future form (almost) the only means of funding local government and core funding (Revenue Support Grant) will end. This has ramifications, the biggest of which is ensuring that each council starts with a level of resources proportionate to its relative need. This will require a new system of assessing relative need to be designed which balances fairness and complexity in such a way as to fairly distribute baseline funding across the Country. This will inevitably be divisive as councils disagree on whether their unique characteristics are fairly reflected in the new system.
- 5.6 The value of Business Rates (£24bn) is far greater than the support Government currently provides to councils (£12bn) and so the Government will seek to transfer its funding responsibilities to local government by an amount equal to the gain. Which responsibilities and what controls are handed to local government will need to be determined.
- 5.7 The current risk reward share between counties and districts, which is weighted 80:20 in the favour of districts, is not reflective of the dependency on grant between tiers of local government and this will need to be reassessed as part of this scheme design

- 5.8 That Councils should have the ability to reduce the amount of business rates payable by businesses by up to 100% but only those with an elected Mayor will have the ability to increase Business Rates within their area by up to a maximum of 2%. For those areas where the gains and losses through the business rates systems are shared between tiers of local government, who gets to make these decisions and who benefits and loses will need to be determined.
- 5.9 The period of resets and revaluations will be key in determining who benefits and loses from business rate gains and reductions, and for how long.
- 5.10 Whilst the proposals reflect what local government has long requested, (full autonomy over the resources it collects), the high level and detailed design of the new system will heavily influence each councils' ability and the extent to which they actually benefits in practice.

6 The Council's Ability to Provide Assistance to Local Businesses

- 6.1 The current system and the uncertainty as to the operation of the future system place constraints on the Council's direct ability to support local businesses.
- 6.2 The future system, whereby councils retain 100% of business rates, may give greater freedom to councils in designing systems of support and relief to businesses but the system is still a national system and any freedoms will inevitably be curtailed by the Government's desire to exercise its own policy agenda.
- 6.3 However, the Government, through the existing system, does give significant support to certain types of business. For example, all charities receive 80% mandatory business rate relief and most small businesses are exempted from all business rates liability thanks to an extension and expansion of the current Small Business Rates Relief threshold. Set out in the following paragraphs is a brief explanation of the principal mechanisms by which support can be given.

Mandatory and Discretionary Charitable Relief

- 6.4 Mandatory Charitable relief has the impact of reducing the business rates liability of most clubs and charities to 20%. It is an element of the national system and the costs are shared in proportion with those that receive shares of the collected business rates. The value of Mandatory Relief awarded in Aylesbury Vale is nearly £5 million per annum.
- 6.5 For those clubs and charities which struggle with the residual 20% of their business rates liability, or don't qualify because they are not a charity but have similar objectives, the Council runs a discretionary rates relief scheme, the cost of which is borne, in proportion, by the beneficiaries of the business rates system.
- 6.6 The scheme further reduces the residual business rates liability (from anywhere from 20% down to 0%) in accordance with the eligibility criteria. For information, the scoring criteria is attached to this report as Appendix A.
- 6.7 The current cost to the Council of discretionary scheme is £338,000. The Council manages the eligibility criteria of the scheme so as to provide a limit to the scheme's overall cost to the Council in accordance with budgetary

constraints. This criteria, on occasion, creates issues when organisations don't receive the full value of relief they believe that they are entitled to.

- 6.8 Charity shops (providing they sell donated or third world goods) are also entitled to 80% mandatory rate relief. This encourages landlords of empty shops who have to pay 100% rates after a 3 month exemption to let to charities. In some areas this creates a perceived issue with agglomerations of charity shops.

Small Business Rates Relief

- 6.9 In accordance with the Government's wider policy objectives of supporting smaller and entrepreneurial business, in recent years it has reduced the business rates liability for small business (with a rateable value of up to £6,000) from the basic level of 50% relief to 100%. They have also doubled the relief available to business with a rateable value between £6,001 to £12,000 which is calculated on a sliding scale
- 6.10 This specific policy initiative has removed the majority of businesses in the Vale, as the Vale has a strong base of smaller and rural businesses.
- 6.11 As the Government has thus far compensated councils for the cost of extending this policy, the extra relief is generally welcomed.
- 6.12 When taken in conjunction with mandatory and discretionary rates relief, the majority of clubs, charities and small businesses are excluded altogether from any business rates liability.

Reoccupation Relief and Retail Relief

- 6.13 Similarly to the extension of Small Business Rates Relief, the Government gave a new relief to Retail businesses (with a rateable value of under £50,000) worth £1,000 in 2014/2015 and £1,500 in 2015/2016. This relief ceased from 31 March 2016.
- 6.14 At the same time it introduced Reoccupation relief of 50% to businesses which were taking occupation of premises which had been empty for up to 2 years. This also ceased from 31 March 2016.
- 6.15 The Council was fully refunded for the cost of both reliefs.

Hardship Relief

- 6.16 For those businesses which fall outside of the Mandatory and discretionary relief systems there are fewer mechanisms to help businesses in need of support.
- 6.17 The Council does on occasion receive requests for relief from business rates, in order to increase the viability of the businesses. Notably, in recent years we have received requests from rural pubs, community shops and independent retailers for which there has been sympathy due to their significance in the remote communities which they serve or their contribution to the diversity of the retail on offer in towns and villages. However, the Council has no means to offer relief within the business rates system and only a small budget, (£2,000), with which to support them directly from its own resources.
- 6.18 If the Council had greater resources to support such requests it would then need to decide on an open and transparent policy on which requests to support and those which it shouldn't. Any such policy would be problematic because of the subjectivity as to which requests were worthy and which weren't.

6.19 The issue is further complicated by the argument that by subsidising the operating costs for one business the Council is effectively giving a competitive advantage to the detriment of others. This will leave the Council open to accusations of fairness and might make the Council subject to challenge.

6.20 For information, the application form is attached as Appendix B.

Enterprise Zones

6.21 The existing system of business rates provides for the designation of areas as Enterprise Zones.

6.22 Subject to the necessary governance arrangements being put in place the Government will allow councils to keep all business rates collected in the Enterprise Zone areas for 20 years, provided that they are re-invested in the infrastructure and creation of jobs in those areas.

6.23 The Government also allows business rates to be reduced to zero for any businesses in those areas for a maximum of 5 years and not to exceed £125,000. The Government fully reimburses councils for the cost of any business rate reductions given.

6.24 This creates a powerful incentive for these areas in attracting new businesses into the Zone.

6.25 Enterprise Zones are usually created around a specific theme or sector and businesses are attracted which fit into that criteria. The discounts on offer are managed in such a way so as not to encourage displacement of existing businesses within the local authority area, but instead to attract new employment into the area as a whole.

6.26 Last year (2015/16) Aylesbury Vale in partnership with Bucks LEP and Bucks CC were successful in gaining the designation of 3 Enterprise Zone areas. These are Silverstone, Westcott, and Woodlands.

Other Support Mechanisms

6.27 The previous paragraphs set out the existing mechanisms in the current system to support businesses. However, the regulations do allow councils to provide support to businesses beyond this in a form they design, but this is entirely at their own cost.

6.28 This raises considerable issues of affordability in context of already constrained budgets and, potentially State Aid issues if businesses are given an unfair advantage as a result of any significant support.

7 Resource implications

7.1 Retained Business Rates are an important source of tax funding for the provision of local services. Its importance and relevance will only increase as this becomes the only support from central Government towards the cost of local services.

7.2 There are existing mechanisms within the system for supporting local businesses, some of which are controlled by central Government and some of which are controlled locally. As a rule of thumb, any extension of reliefs beyond those contained within the national system will be a cost (in terms of lost revenue) to the local taxpayer.

7.3 The tension arises between the desire and need to have a healthy and expanding employment base, the business rates which that generates in

support of local services and the amount of business rates income given away in the form of reliefs in order to maintain and grow the business rates base.

Contact Officer	Andrew Small 01296 585507
Background Documents	None

Discretionary Rate Relief Assessment

APPENDIX A

Name of Organisation	

Pre-qualifying criteria

Is the organisation properly constituted and does it operate on a not-for-profit basis?		
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CRITERIA ON WHICH CLAIMS ASSESSED	POINTS AVAILABLE	POINTS AWARDED
1. Do the aims of the organisation support any of the Council's key aims and outcomes: (a) Local communities To provide safe, active and healthy communities and provide accessible services	15	
(b) Local Environment To manage the built and natural environment in a sustainable way	10	
(c) Local Economy To develop and promote the economy	10	
2. Does the organisation provide education or training for members or volunteers involved in service delivery? Yes No	10 0	
3. Does the organisation provide sports / recreational facilities that otherwise may have to be provided by AVDC? Yes No	10 0	
3. What percentage of the members or users of the organisation are residents of Aylesbury Vale? a) 100% b) Over 75% c) Less than 75%	15 10 5	
4. Do membership rules/rates support the principle of open access to residents of a) all areas of Aylesbury Vale b) a specific area or group of people	15 5	
5. Does the organisation encourage the use of its facilities by non-members? (e.g. schools, public sessions) yes no	5 0	
6(a) Is the organisation in receipt of ARG or SLA from AVDC? a) yes b) no	15 0	
6(b) Is the organisation in receipt of grant funding from other sources? E.g. BCC, Big Lottery, Bucks Foundation, William Harding or other Charitable Trust a) yes b) no	5 0	

Discretionary Rate Relief Assessment

APPENDIX A

7. Annual turnover of organisation		
a) <£100,000	15	
b) £101,000 - £300,000	10	
c) >£300,000	-15	
8. Does the organisation operate bar facilities?		
a) yes	-10	
b) no	0	
TOTAL	135	

DRR SCORE	RELIEF AWARD
<i>e.g.</i> 60+	100%
50-59	75%
40-49	50%
25-39	25%
Below 25	0%

TOP-UP SCORE	RELIEF AWARD
<i>e.g.</i> 60+	20%
50-59	15%
40-49	10%
30-39	5%
Below 30	0%



**APPLICATION FOR HARDSHIP RELIEF UNDER THE PROVISIONS OF THE LOCAL
GOVERNMENT FINANCE ACT 1988 SECTION 49**

Section A

Account Number
.....

Address of rated property.....

Name of Organisation.....

Section B

Please complete the following questions to be considered for Hardship Rate Relief.

- (a) Does the business form part of a national network of outlets or is the ratepayer franchised to more than one business outlet?
- (b) Is the business the only one of its type in the immediate local community?
- (c) Does the business provide an essential service or amenity to the immediate local community which would otherwise be lost and not replaced?
- (d) Does the business provide employment to the local community which would be otherwise lost and not replaced?
- (e) Do you consider that any award of hardship relief would secure the future existence of the business which would otherwise be lost?
- (f) Do you consider that the community would benefit from the business being helped and if so to what extent?

Notes

In order to consider your application you must provide a copy of your Financial Accounts for the last two years together with a financial profile for the current year.

If you have not been trading for the past two years, you must provide a financial profile for the current year together with any current trading accounts.

Declaration: I certify that the foregoing particulars are correct to the best of my knowledge and belief (this must be completed in all cases)

Signature.....

Address.....

Capacity in which signed

Date