



Report of Chief Officer Revenues & Benefits

Report to Executive Board

Date: 12th October 2011

Subject: Discretionary Rate Relief for Social Enterprises

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. In recent years, the development of new legal forms such as Community Interest Companies and a new national policy focus on social enterprise have led to an increasing number of organisations that are delivering social benefits but are not registered charities. As such they do not qualify for mandatory relief from business rates.
2. There is, however, provision under section 47 of The Local Government Finance Act 1988 for Council's to allow discretionary relief of up to 100% to organisations that are not conducted for profit. Guidelines for the award of discretionary relief were approved by the Executive Board in August 2009 and each application is assessed against them. These guidelines do not refer specifically to social enterprises and the purpose of this report is to seek approval for amendments to the existing guidelines to include specific criteria against which applications for discretionary rate relief from Social Enterprises may be assessed, and to promote these to encourage increased applications from this sector.
3. 25% of the cost of discretionary rate relief is borne by the council. The remaining 75% is funded centrally via the national non domestic pool.

Recommendations

4. The Executive Board is asked to approve changes to the Business Rates discretionary relief scheme to clarify the criteria by which applications from Social Enterprises will be assessed, and to increase the maximum level of relief awarded from 50% to 80% in specific cases.

1 Purpose of this report

The purpose of the report is to outline the how the current guidelines relate to the determination of applications for discretionary rate relief for social enterprises and to suggest amendments which will make the process more transparent and encourage increased applications from this sector.

2 Background information

- 2.1 In recent years, the development of new legal forms such as Community Interest Companies and a new national policy focus on social enterprise have led to an increasing number of organisations that are delivering social benefits but are not registered charities. National research published by Social Enterprise UK has revealed a boom in Social Enterprise start-ups, with the sector growing at three times the rate of the mainstream economy. In common with all start-ups, cash-flow is the most important factor to early stage enterprises, and help such as providing discretionary rate relief can be beneficial. In Leeds recent experience of supporting Social Enterprises such as Shine, Tiger11 and Chapeltown Development Trust through the Local Enterprise Growth Initiative (LEGI) programme underlines both the social impact that Social Enterprises have in their local communities, and the impact that this measure could have in supporting sustainability.
- 2.2 A submission by the Social Enterprise Coalition to the Joint Cabinet Office-BIS Task Force on Cutting Red Tape recently stated:

'A number of local authorities have clear social enterprise policies. However, many local authorities have no official policy for business rates for social enterprises and there is a lack of transparency on how decisions are made and how a social enterprise may go about appealing the payment of full business rates'.
- 2.3 The guidelines approved by the Executive Board in August 2009 (appendix 1) contain specific criteria against which applications from sporting organisations and hospices are to be assessed. There is also criteria for other organisations whose main objects are charitable or otherwise philanthropic or religious or concerned with education, social welfare, science literature or the fine arts, and applications from Social Enterprises are currently assessed against these. Therefore whilst not currently excluded from receiving relief there are no specific guidelines for them.

3 Main issues

- 3.1 The diverse nature of social enterprises means they can range from a registered charity (who attract mandatory rate relief of 80%) to companies limited by guarantee and Community Interest Companies through to sole traders. They also vary greatly in size.

Any relief awarded to such organisations needs to be targeted at those whose activities are most beneficial to council taxpayers as a whole, and support the council's wider aims.

- 3.2 It is also not intended that discretionary rate relief will be awarded to organisations which are in direct competition with small businesses that are not social enterprises, for example specialist shops or services. The guidelines help to prevent this by placing the emphasis on the criteria for qualification on the benefit of the applicant's activity to the general public.
- 3.3 Applications for discretionary rate relief are considered by The Chief Officer Revenues and Benefits with reference to the guidelines agreed by the Executive Board. It is proposed that all applications from Social Enterprises will be assessed by the Business and Enterprise Team on the basis of the benefit of the service which they provide to the general public and priority groups . They will provide a recommendation as to whether relief should be awarded in each case, and if so the appropriate level, based on this assessment.
- 3.4 It is proposed that the following be added to the current guidelines for the award of discretionary rate relief (attached at Appendix 1), as the first category of organisation in the guidelines.

Social Enterprises

The Council will offer relief to organisations which are recognised as social enterprises.

The amount of relief offered to Social Enterprises will reflect the extent to which organisations extended their facilities to the public and priority groups in particular.

A social enterprise is defined as a company which reinvests its profits for a social purpose as opposed to redistributing them. This enables them to meet the not for profit requirement of section 47 of the Local Government Finance Act 1988.

Any application for relief must include copies of the organisation's constitution or Articles of Association, which must include statements to the effect that:

- 1 Any surplus raised by the organisation will be reinvested into a social purpose and not distributed to the owners, members or shareholders
- 2 Upon dissolution any remaining assets should be transferred to an organisation with similar aims and not distributed amongst the owners, members or shareholders.

Organisations, which restrict membership, will not receive support

Organisations which provide a service which is of benefit to the general public but have limited involvement with priority groups will receive **10% (Category 1)**.

Organisations provide a service which is of benefit to the general public and have more involvement with priority groups will receive **25% (Category 2)**.

Organisations which provide a service which is of benefit to the general public and which have extensive involvement with priority groups will receive **50% (Category 3)**.

Organisations which meet the criteria for category 3 relief and are in the first year of trading will receive relief of **80%** for the first twelve months.

Relief will be awarded up to the end of the financial year in which the application is received and a new application will be required for subsequent financial years.

Determination of the category of relief will be on the recommendation of the Business and Enterprise Team.

4 Corporate Considerations

4.1 Consultation and Engagement

4.4.1 Consultation has been undertaken with the Business and Enterprise Team.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no specific implications for Equality and Diversity / Cohesion and Integration and an impact assessment is not required

4.3 Council Policies and City Priorities

4.3.1 Working with partner organisations to promote key sectors of the local economy and provide support to businesses in Leeds.

4.4 Resources and Value for Money

4.4.1 The proposed amendments to the guidelines will result in an increase in the cost of discretionary rate relief to the authority. This will be limited to 25% of the total value of the additional relief as 75% is funded by central government through the national non domestic pool. The total number of social enterprises within the Leeds area which are not also registered charities is estimated to be around 150. It is not known how many of these are liable for business rates, and if so, whether they already qualify for small business rate relief. However based on estimates from the Business and Enterprise Team it is unlikely that the additional cost to the authority would exceed £50,000. Due to the funding ratio of 25/75 with central government this would deliver £200,000 of financial assistance to the Social Enterprise sector.

The current annual budget for Discretionary rate relief is £183,990

4.5 Legal Implications, Access to Information and Call In

4.5.1 Approval for amendments to the guidelines for discretionary rate relief require approval by the Executive Board. Although such guidelines are not a legal

requirement they are essential in ensuring consistency of approach in assessing applications for discretionary rate relief.

4.6 Risk Management

- 4.6.1 The principal risk in approving to amending the guidelines is that the cost of the additional relief awarded will exceed the budget. However the relatively small number of potential applicants means that this is low. The potential risk of not amending the guidelines is that the opportunity to provide practical support to social enterprises which provide potential benefits to the city may be missed.

5 Recommendations

The Executive Board is asked to approve changes to the Business Rates discretionary relief scheme to clarify the criteria by which applications from Social Enterprises will be assessed, and to increase the maximum level of relief awarded from 50% to 80% in specific cases.

6 Background Documents

None.

CURRENT GUIDELINES FOR AWARDING DISCRETIONARY RATE RELIEF

SOCIAL CLUBS

The Council will offer relief to organisations where membership is open to the community. The Council will normally require affiliation to a body such as the CIU (Club and Institute Union) to demonstrate open access.

For such organisations the Council will provide 10% relief.

SPORTING ORGANISATIONS

The Council will investigate the possibility of obtaining mandatory relief for sporting organisations by advising them on the steps required to obtain Community Amateur Sports Club (CASC) status through HM Revenues & Customs.

The amount of relief offered to sporting organisations will reflect the extent to which organisations extended their facilities to the public and priority groups in particular. In the case of CASC registered organisations the amount of discretionary rate relief refers to the balance net of mandatory relief.

Organisations, which restrict membership, will not receive support

Organisations which provide sporting facilities for the general public but have limited involvement with priority groups will receive **10% (Category 1)**.

Where organisations have more extensive involvement with priority groups, such as through youth teams, they will receive **25% (Category 2)**.

Organisations which have taken special steps to assist the Community, for instance by making facilities available to schools or in partnership with the Directorate of Learning and Leisure will receive **50% (Category 3)**.

OTHER ORGANISATIONS WHOSE MAIN OBJECTS ARE CHARITABLE OR OTHERWISE PHILANTHROPIC OR RELIGIOUS OR CONCERNED WITH EDUCATION, SOCIAL WELFARE, SCIENCE LITERATURE OR THE FINE ARTS

The Council will investigate the possibility of obtaining relief for organisations with charitable aims by advising them on the steps required to obtain charitable status.

For those organisations which are not currently registered as charities, or which are ineligible, the amount of discretionary relief awarded will reflect the extent to which organisations extend their facilities to the public and priority groups in particular.

Organisations, which restrict membership, will not receive support

Organisations which provide facilities for the general public but have limited involvement with priority groups will receive **10% (Category 1)**.

Where organisations have more extensive involvement with priority groups, such as young persons, the elderly and disabled, they will receive **25% (Category 2)**.

Organisations which have taken special steps to assist the Community, for instance by making facilities available to schools or in partnership with Leeds City Council will receive **50% (Category 3)**.

For those organisations which are registered as charities, discretionary relief may be awarded in addition to mandatory relief for the following organisations

Scout and Guiding Associations – 50%

Leeds based charities occupying a single property with a rateable value under £5,000, excluding shops – 50%

Hospices

Applications will be considered from hospices that meet the following criteria ;

Leeds based charities who provide buildings based palliative and end of care services, applications to be in respect of premises where hospice type services are provided. – 100% relief of the net balance