

Report of the Director of City Development

Report to Executive Board

Date: 22 June 2016

Subject: Review of Discretionary Business Rate Relief Scheme

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. The 2016/17 Best Council Plan sets out our ambition for Leeds to have a strong economy with a priority for the council to support economic growth and access to economic opportunities. These aims reflect the continuing growth in employment and prosperity in Leeds which are underpinned by our growing economy and business base.
2. Section 69 of The Localism Act 2011 introduced the provision for local authorities to allow relief, or a discount, from business rates from 1st April 2012 to any organisation it deemed appropriate, provided that it was in the interests of local council tax payers to do so. Prior to this Act the provision extended only to not for profit organisations. .
3. In April 2014, Executive Board approved the introduction of four categories of discretionary relief covering Listed Buildings, Inward Investment, Civic Enterprise and Young Businesses in our target growth sectors. We were the first Council in England to develop an explicit policy for the use of the Localism Act powers, and our policy has now been adopted by the rest of the City Region and by authorities elsewhere in the Country.
4. Having reviewed the operation of these existing schemes, we wish to ensure that the range of available reliefs are targeted in the best possible way so as to support the growth of the economy and to attract, create and retain jobs in Leeds.
5. Rates relief should not be seen as a cost but rather as an investment. By supporting firms to scale-up, or to grow or maintain their investment in Leeds we are helping to

sustain and expand the business rates base of the city, and thus the future income of the Council. Rates relief is an important part of the Council's offer in seeking to back innovators and entrepreneurs, to secure inward investment and to intervene to assist firms to stay in Leeds when they face the risk of closure or relocation elsewhere.

6. Our proposals cover three specific areas:
 - a) Safeguarding and retention of employment;
 - b) Strategic relocations to support regeneration and growth initiatives; and
 - c) Shared areas of coworking and collaboration spaces for young businesses in our target growth sectors.

Recommendation

7. Executive Board is recommended to:
 - i) approve the proposals to extend the guidelines for the award of discretionary relief for Business Rates from 2016/17 onwards;
 - ii) delegate implementation of the scheme to the Chief Officer Economy and Regeneration, in consultation with the Executive Members for Economy & Culture and Resources & Strategy and the Deputy Chief Executive.

1 Purpose of this report

1.1 The report seeks approval to extend the current scope of discretionary rate relief to 'for profit' organisations who meet agreed criteria, as permitted under Section 69 of the Localism Act 2011.

2 Background information

2.1 Local authorities have had the discretion to award relief from rates to certain organisations since 1990. This was restricted to:

- a) topping up the 80 per cent mandatory relief given to charities to 100 per cent;
- b) topping up the 80 per cent mandatory relief given to Community Amateur Sports Clubs to 100 per cent;
- c) topping up the mandatory relief available to rural village shops etc;
- d) providing up to 100 per cent relief to other non-profit making bodies;
- e) hardship relief to certain businesses that are finding it difficult to pay; and
- f) discretionary relief to other small rural businesses.

2.2 Section 69 of The Localism Act 2011 introduced the provision for local authorities to award discretionary rate relief to any organisation with the condition that this can only be done if it is in the interest of local council tax payers. It is clearly in the interest of local council tax payers to support the growth and retention of employment and business rates in Leeds.

2.3 In April 2014, Executive Board approved the introduction of four categories of rates relief to "for profit" businesses, namely:

- Commercial Listed Buildings currently out of use;
- Significant relocations of businesses into Leeds City Region;
- Civic enterprise – otherwise unfunded activities undertaken by businesses which support Leeds City Council priorities; and
- Young businesses in our target growth sectors.

2.4 Overall relief within these four categories was capped at £1m per annum. In practice, the total cost in 2015/16 was £0.08m. Seven organisations have been granted civic enterprise relief, and 19 young businesses have been supported to grow. In two cases, inward investment has been supported through the new discretionary relief, and one Listed Building has been brought back into use through the scheme.

2.5 As our use of these policies has matured, Officers have become aware of additional areas where rates relief could be beneficial to the growth of the economy and the safeguarding of employment.

- 2.6 In particular, our work in responding to the floods caused by Storm Eva in the winter of 2015/16 has highlighted the challenges of businesses that need to move premises due to circumstances beyond their control. While national schemes cover the provision of rates relief to businesses that are temporarily impacted by flooding, this does not extend to alternative premises for businesses who have no option but to move.
- 2.7 Such a move can be facilitated in part through providing rates relief on the new premises, enabling the business to better cashflow the move between sites and thus safeguarding the employment of its existing workforce.
- 2.8 In other cases, there is a strategic case to support the move of a business from its existing premises to a new site – for example, where an existing long term use of a site is no longer compatible with the desired future use of the broader area. In such cases, it would also be in the long term interests of the city to help facilitate such a move through rates relief, where both the safeguarding of employment and the unlocking of future land uses is achieved.
- 2.9 In our work supporting the growth of young businesses, the challenge of running collaborative workspaces has been highlighted. Businesses that run such facilities are left with a significant overhead from the rates payable on communal space. It is this shared space which is of great value in bring business communities together to accelerate growth. More such spaces would be available, supporting greater growth in our burgeoning start up businesses, if the common space were to be treated in a similar fashion to the space occupied directly by those businesses.

3 Main issues

Overview

- 3.1 Relief from rates is considered to be State Aid, and any award above the de minimis value (currently €200,000 over a three year period) is subject to European Commission approval. The process and likelihood of obtaining such approval are such that the State Aid de minimis level is effectively the maximum which may be awarded in rates relief.
- 3.2 Although the relief is discretionary there is a statutory obligation to ensure that decisions are made in a consistent manner. Failure to do so could result in a legal challenge ultimately by way of judicial review. The guidelines are intended to provide this consistency.
- 3.3 Rates relief is best viewed as an investment in the local economy, and more specifically, in future growth of the Business Rates base. By providing short-term relief, we can improve the cashflow of businesses, helping to prevent closures, securing new business interests, and supporting growth. In doing so, we are helping to ensure that these companies continue to provide employment, and also continue to pay business rates. Where expansion and growth are supported, these can lead to increased Business Rates income as companies take on additional space. So the initial cost of providing relief is recouped in future years.

3.4 There are significant advantages in using rates relief to support target businesses and facilitate moves between sites; including:

- It is the form of financial support which is most often requested by external partners;
- Under the current Rates Retention scheme the cost of the relief is effectively shared equally with local government, although this is set to change in coming years;
- By linking support to having premises in Leeds, we ensure that our support is recycled at least once in the local economy;
- The scheme can be robustly managed using existing corporate strategic decision making structures;
- Delivery by the rates team is robust and requires no additional resourcing; and
- In short, rates relief provides a financially advantageous and robust mechanism to provide uncontroversial support to partners at our discretion.

3.5 Our recent experience in dealing with floods and rates relief is largely as a consequence of the national schemes we have operated which provide 3 months mandatory and 6 months discretionary relief to all affected businesses. In some cases, this has not been suitable as premises have been so compromised by flooding that the business has no option to move to a more secure site. For businesses with branches outside of Leeds, this has introduced a further risk of job loss. Once the business has moved to its new site, there can be a residual problem at the former premises depending on the nature of tenure and rates status of the old site. These challenges could all be dealt with through a new “job retention and safeguarding” policy as proposed below at 3.3.1 of this report.

3.6 Strategic relocations. There are several live cases in the Council where a long-established business is compromising a wider strategic vision for an area. In negotiations with the business owners, the possibility of providing rates relief to incentivise a business move has proved attractive. The reconfiguring of rates relief policies provides the potential to include a category which would support strategic relocations of businesses to facilitate broader regeneration or development objectives.

3.7 Shared workspaces have become increasingly popular with start-up businesses, particularly in the creative and digital sector. Typically, the premises occupied by individual businesses in such premises will be considered individual hereditaments, and thus within the scope of national small business relief or our own discretionary policy to support early stage businesses in our target sectors. However, the communal and coworking space in such buildings, where collaboration between tenants is enabled and an easy way in to new entrants provided, lies outside of existing provision. Treating all such space as if it were permanently supporting first year businesses would mean providing relief at 80% for such areas.

Three new discretionary rates relief schemes are proposed.

3.8 **Employment safeguarding and retention Rates Relief programme**

Level of relief: Over a period of 3 months to 12 months (depending on circumstances), 25% - 100 % of rates payable, depending on circumstances. Empty properties currently get 6 months – extend this by up to a further 6 months where needed.

Criteria

- Available to any business where a premises move is forced due to unforeseen circumstances such as flooding or fire and the business intends to retain employment at existing levels.
- Empty premises additional relief is available on the previous site while VAO reassesses the rateable value of the site.

Process

- Application made to Chief Officer Economy and Regeneration, supported by business case, demonstrating employment benefits.

3.9 **Strategic relocations**

Either as a consequence of Council policy to change land use in a particular area or to support growth and consolidation of key businesses.

Criteria:

- Application must have the support of Director of Development, the relevant Executive Member and Ward Councillors.

Process:

- Application made to Chief Officer Economy and Regeneration, supported by business case, demonstrating strategic benefits
- Decision made following consultation with Director of Development, Executive Members and Ward Councillors.

3.10 **Shared workspaces predominantly used by businesses in our Economic Growth Sectors**

Our growth sectors are defined in the Economic Growth Strategy, which was adopted by Executive Board in November 2011. The growth sectors are:

- Healthcare;
- Creative & Digital;
- Professional & Business Services;
- Retail;
- Low Carbon Manufacturing;

- Construction; and
- Social Enterprise/Third Sector.

Young businesses (first five years of trading) in our target sectors can receive 3 years of rate relief – 80% in first year of relief, 50% in second year, 20% relief year 3. The proposal is to treat communal or coworking space in premises designed for the incubation and growth of young businesses as first year start up space, providing 80% rates relief on such space.

Criteria:

- Only available for premises designed to house multiple young businesses which includes communal and/or coworking spaces;
- Such areas to be clearly marked on a measured drawing, indicating hereditaments;
- Space used solely by the management company for the building is not eligible for this relief; and
- Application must have the support of at least 5 young businesses currently using the space.

Process:

- Application form;
- Supported with statements for 5 current tenants;
- Rates team to agree proportion of space eligible for relief; and
- Chief Officer Economy & Regeneration makes decision.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Internal consultation has been undertaken with Heads of Service in Economic Development, Regeneration, Employment Skills, Business Rates and Finance. This consultation has identified the schemes included in this paper.

4.1.2 The view of the Executive Members for Economy & Culture and Resources & Strategy has been sought and both are supportive.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The proposals have no equality and diversity relevance because businesses rates are universally levied on all businesses and the proposed relief schemes are available to all businesses in Leeds. The equality and diversity characteristics of the business applying for relief will not be a factor in determining whether relief is granted, nor will the relief be geographically targeted in any way.

4.3 Council Policies and Best Council Plan

4.3.1 The proposed schemes of rates relief support our stated ambitions in the Best Council Plan 2016/17 for the council to be an efficient and enterprising organisation and for Leeds to have a strong economy and to be a compassionate city, with a specific council priority of 'Supporting economic growth and access to economic opportunities'.

4.4 Resources and value for money

4.4.1 Administration of the four schemes can be carried out using existing staff resources from rates, economic development, conservation and corporate support.

4.4.2 The cost of providing the relief set out will depend on the level of uptake of the three schemes.

- For job retention relief, it is proposed to cap the total annual relief at £250k;
- For shared Young Business space relief, we anticipate no more than 5 businesses receiving the relief in any year, this would equate to a maximum of £250k relief in any one year; and
- For strategic relocation relief, the relief would be capped at £250k per annum.

The maximum annual additional cost to LCC would thus be £375,000 (50% of £750k), bringing the total cap on discretionary relief to £1.75m, and the total maximum cost to LCC to £875,000.

- The cost of individual awards to organisations relocating to Leeds would be a maximum of 200,000 euros over a three year for each case. However the business case for each application would be expected to demonstrate economic benefit in terms of employment and future rates revenue which would exceed this in the long-term.

4.4.3 In the longer term, by supporting growth businesses, incentivising job creation, and helping to bring zero-rated buildings into economic use, it is hoped that this investment will produce a significant return.

4.5 Legal Implications, Access to Information and Call In

4.5.1 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.

4.5.2 Councils are required exercise their discretion to award relief from rates in a legal and consistent manner.

4.6 Risk Management

4.6.1 The proposals would allow the Council to exercise their discretion to award discretionary rate relief under the Localism Act within limited, clearly defined, circumstances, thereby limiting the potential cost.

4.6.2 The main risk in these proposals is that demand exceeds the costs budgeted above. This can be mitigated by capping the relief under each category at the amounts specified above.

5 Conclusions

5.1 The proposed revised guidelines seek to allow the Council to use the discretion to award relief from rates under the Localism Act to support businesses who are participating in key priorities, i.e. Civic enterprise, young businesses in target growth sector and reuse of heritage buildings.

5.2 Revised guidelines are required to ensure consistency. The alternative is to state that the Council will not exercise their discretion to award relief under The Localism Act.

6 Recommendations

6.1 Executive Board is recommended to:

- i) approve the proposals to extend the guidelines for the award of discretionary relief for Business Rates from 2016/17 onwards;
- ii) delegate implementation of the scheme to the Chief Officer Economy and Regeneration, in consultation with the Executive Members for Economy & Culture and Resources & Strategy and the Deputy Chief Executive.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.