

**Report of the Chief Officer - Financial Services**

**Report to Executive Board**

**Date: 21<sup>st</sup> June 2017**

**Subject: Implementation of business rates relief measures announced at Spring Budget 2017, including the design of a local discount scheme**

Are specific electoral wards affected? If yes, 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. At the March 2017 Budget, the Chancellor announced three measures to support businesses affected by the 2017 Revaluation: support for small businesses, a business rate discount for public houses and £300 million of funding over four years for local authorities to establish local discretionary relief schemes 'to deliver targeted support to the most hard-pressed ratepayers'.
2. All English billing authorities have been allocated a share of this £300 million and are required to design and implement local relief schemes. This funding will be administered through the discretionary relief powers under section 47 of the Local Government Act 1988.
3. The notified funding allocations for Leeds City Council are detailed here:

<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020/21</b>	<b>Total</b>
£1,687,543	£819,664	£337,509	£48,216	£2,892,931

4. DCLG will announce in Quarter 2 of 2017/18 whether flexibility should be provided to local authorities to allow allocated funding to be moved between years.
5. The West Yorkshire authorities have liaised on the possibility of a regional scheme, and have developed a simple transitional scheme which would provide relief to small and medium businesses: on the basis that most properties fall within these bands and

that large businesses may be better placed to absorb the steep rise in rates. All national, statutory reliefs, reductions and exemptions would be applied before any calculation for the local scheme could be considered and the level of relief awarded is intended to keep the costs of the scheme within the available funding. In addition, Leeds proposes to use any remaining government funds to support large businesses on a case by case basis.

6. The proposed scheme is now subject to Cabinet approval by individual authorities.
7. Key risks identified include the financial risk that costs will exceed available funding and reputational risk associated with delays in implementation.

## **Recommendations**

1. Executive Board are asked to:
  - approve the proposed locally administered West Yorkshire business rate discount scheme, which is intended to provide targeted support to businesses affected by the 2017 business rates revaluation;
  - approve the use of any remaining government funds to support large businesses on a case by case basis;
  - formally approve implementation of the two national business rate relief schemes announced by Government: namely support for small businesses losing Small Business Rate Relief and a £1,000 business rate discount for public houses with a rateable value of up to £100,000.
2. Following approval of the local and national schemes, Executive Board are asked to note the intention to implement the three schemes at the earliest opportunity, and also that reliefs awarded will be backdated to 1st April 2017.
3. Implementation of the local and national schemes will be carried out by the Business Rates Manager.

## 1. Purpose of this report

- 1.1 This report seeks approval to implement the proposed locally administered West Yorkshire discretionary discount scheme outlined in Paragraph 3 below and designed in liaison with the other West Yorkshire authorities. The scheme is explained more fully at **Appendix 1**.
- 1.2 Further, the Executive Board are asked to approve the implementation of the two national rate relief schemes introduced by Government, outlined at Paragraph 2.3.

## 2. Background information

- 2.1 All non-domestic properties have been subject to a national business rates revaluation which took effect from 1st April 2017. The impact of the 2017 revaluation was very mixed, both nationally and locally, with some businesses experiencing large increases in their rateable values and others large decreases.
- 2.2 As with previous revaluations, the Government has introduced a national transitional scheme to phase in the impact of both increases and reductions in business rates liability. Under this scheme, explained at **Appendix 3**, the amount by which a business's liability increases or reduces compared with their 2016/17 liability is capped.
- 2.3 At the Budget on 8th March 2017, the Chancellor announced three additional measures to support businesses affected by the 2017 Revaluation. These were:
  - Support for small businesses which would otherwise lose small business rate relief as a result of their increased 2017 rateable value, limiting increases in their bills to £600 each year. There are approximately 140 such cases in Leeds and the value of this relief would be £150,000.
  - A £1,000 business rate discount for public houses with a rateable value of up to £100,000, for one year only. There are 324 potential cases in Leeds, although State Aid legislation which regulates the level of state funded support to businesses is likely to mean that not all pubs run by the major chains will be able to receive the discount.
  - Providing £300 million of funding over four years to English local authorities to establish local discretionary schemes 'to support those businesses that face the steepest increases in their business rates bills as a result of the 2017 revaluation'.
- 2.4 The first two measures are comparatively straight-forward to implement as the qualifying criteria are clear. Executive Board are not required to approve the detail of these schemes, but are asked to formally approve their implementation in Leeds.
- 2.5 The third measure, however, requires each local authority to design and implement their own local scheme. Leeds has liaised with the other West Yorkshire Authorities to develop a common scheme, outlined in Paragraph 3 below. The scheme is explained in more detail at **Appendices 1 and 2**.

- 2.6 Every business rates billing authority in England will be provided with a share of the £300 million Government fund. The fund will cover four years from 2017/18, and the Government's current allocation for each year is as follows:

<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020/21</b>	<b>Total</b>
£175m	£85m	£35m	£5m	£300m

- 2.7 The allocation of this funding to individual authorities has been based on a calculation of the number of properties in each authority where the rateable value is under £200,000 and the increase in liability in 2017/18 is over 12.5%, before any reliefs are applied. This methodology is intended to reflect the Government's assumptions that local authorities will wish to support ratepayers or localities facing the most significant increases and occupying lower value properties.

- 2.8 The notified funding allocations for Leeds City Council are detailed here:

<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020/21</b>	<b>Total</b>
£1,687,543	£819,664	£337,509	£48,216	£2,892,931

These allocations are the total value of reliefs which can be awarded to businesses under this local scheme. Leeds would be compensated for 50% of the allocations shown above, in line with the losses to income we would experience under the current 50% business rates retention scheme.

- 2.9 The Government initially indicated that they were considering offering local authorities some flexibility to switch allocated funding between years, a flexibility we would welcome. We understand that the Government intend to look at this issue of flexibility in Quarter 2 of 2017/18.
- 2.10 Leeds has liaised with the other West Yorkshire Authorities on the design of a common local discount scheme, to ensure consistency across the region, ensuring that businesses are treated fairly and coherently.

### **3. Main issues**

- 3.1 West Yorkshire Authorities have examined the possibility of a regional scheme and firstly agreed a set of **design principles**, detailed in **Appendix 1**.
- 3.2 Taking these principles into account, the authorities have developed a common **West Yorkshire discount scheme**, subject to approval by their respective Cabinets. The proposed scheme would operate as a simple, local transitional scheme and would award all eligible ratepayers 50% of the increase in business rates due to revaluation after all other reliefs and discounts have been applied.
- 3.3 The percentage of relief awarded will vary over the four years of the scheme, reflecting reductions in the amount of funding available. There must be scope within the scheme design to change the relief percentage, either in year in 2017-18 or at the beginning of each subsequent year, should Government permit authorities to use allocated funding more flexibly or change the level of funding or should the scheme be affected by any additional information, legislation or guidance.
- 3.4 Additional scheme criteria, including eligibility, changes of circumstances and the application of state aid rules are discussed in more detail at **Appendix 2**.

- 3.5 Government funding allocations are not calculated on the same basis as the proposed West Yorkshire scheme. Providing a 50% discount to all eligible businesses may maximise the use of allocated Government funding for some of the West Yorkshire authorities. However in Leeds current costings indicate that this 50% scheme would provide support to 3,950 eligible ratepayers in 2017-18 at a cost of £1.5 million. We would then have around £200k of funding left of our 2017-18 allocation, which could be used to support larger businesses (with a rateable value of over £100k) on a case by case basis.
- 3.6 Leeds also costed schemes offering lower and higher discounts, as follows:

<b>Discount percentage</b>	<b>Rateable Value Threshold</b>	<b>Estimated Cost</b>	<b>Number of Eligible Ratepayers</b>
100%	£51,000	£1.85m	3,500
50%	£100,000	£1.5m	3,950
33%	£200,000	£1.65m	4,125

Obviously, the higher the discount percentage the lower the number of eligible ratepayers who can be supported within the available funding and vice versa. The proposed 50% scheme is affordable for Leeds and for the other West Yorkshire authorities and enables support to be provided to all small and medium businesses. It offers a good balance between supporting the businesses most likely to be less well placed to absorb the impact of revaluation without spreading the available resources too thinly.

- 3.7 The intention would be to implement the approved scheme at the earliest opportunity in order to make the funding available to eligible businesses quickly. It is anticipated that no changes to existing business rates software are required to implement this relief.
- 3.8 Delivery of the proposed scheme supports the ‘Good Growth’ priority in the Best Council Plan, providing additional support to small and medium businesses in the city.

## **4. Corporate considerations**

### **4.1 Consultation and engagement**

- 4.1.1 Consultation with Major Precepting Authorities is required by Government. For Leeds this necessitates consultation with West Yorkshire Fire & Rescue Authority, which has been undertaken by City of Bradford Metropolitan District Council on behalf of all West Yorkshire authorities.
- 4.1.2 The Fire Authority has expressed no opinion on the proposed scheme, other than that “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.” As any loss of business rates income will be fully reimbursed by Government there will be no financial impact on the Fire Authority.

4.1.3 There is no specific requirement to consult with businesses. However, we recognise the value of having a business perspective on the proposed scheme and have therefore been in contact with the West and North Yorkshire Chamber of Commerce. Representatives from the Chamber of Commerce have not raised any concerns regarding the scheme.

#### **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 Equality Impact Assessment is not required

#### **4.3 Council policies and best council plan**

4.3.1 Delivery of the proposed scheme, targeting available funds to small and medium businesses which make up the majority of businesses in the city and which may be less well placed to absorb business rates increases, will support the 'Good Growth' priority in the 2017-18 Best Council Plan, with its focus on growing the economy, creating jobs, improving skills and promoting a vibrant city.

#### **4.4 Resources and value for money**

4.4.1 As a result of the local discretionary discount scheme and the two national schemes over £2 million of business rates income may be foregone in 2017/18. Under the current 50% business rate retention system Leeds will lose 50% of this business rate income. Government will fully reimburse local authorities for business rates income foregone as a result of these reliefs by paying grant under section 31 of the Local Government Act 2003.

4.4.2 The Department for Communities and Local Government have stated that they will undertake a New Burdens assessment of the IT and administrative costs associated with the delivery of these reliefs. We therefore expect that any costs arising from implementation of the new schemes will be met by Government.

#### **4.5 Legal implications, access to information, and call-in**

4.5.1 The proposed decisions are an Executive Function, as defined in Part 3 of the Constitution.

4.5.2 There are no legal implications arising from this report.

#### **4.6 Risk management**

4.6.1 The proposed West Yorkshire discount scheme would enable Leeds City Council to award the business rates reliefs announced by Government under the Localism Act within clearly defined, simple criteria. Whilst the two national schemes will be fully funded, there is some risk that costs arising as a result of the proposed local discount scheme will exceed the funding available. This risk has been largely mitigated in the design of the proposed scheme and authorities intend to reserve the right to change the relief percentage if necessary. The risk of overspending is higher in some West Yorkshire Authorities than in others. Initial costings suggest that Leeds will have £200k remaining to provide some support to large businesses,

however there is an inherent risk in accurately modelling costs, particularly in trying to predict how state aid legislation might affect eligibility for the scheme.

- 4.6.2 The local and national relief schemes were initially announced in March 2017 but implementation has been delayed to allow for a Government consultation process and further guidance from Government. There is a reputational risk for Leeds should implementation be delayed longer than necessary, particularly once other local authorities start making payments.

## **5. Conclusions**

- 5.1.1 The proposed West Yorkshire discount scheme will enable Leeds to implement a local discretionary relief scheme as required by Government and to target the available Government funding to support small and medium businesses, leaving around £200k to provide support to large businesses on a case by case basis. The scheme design is simple, minimising the administrative burden and making it easier for ratepayers to understand.
- 5.2 The implementation of a common local discount scheme with the other West Yorkshire authorities provides consistency across the region, ensuring that businesses are treated fairly and coherently.

## **6. Recommendations**

- 6.1 Executive Board are asked to:
- approve the proposed locally administered West Yorkshire business rate discount scheme, which is intended to provide targeted support to businesses affected by the 2017 business rates revaluation;
  - approve the use of any remaining government funds to support large businesses on a case by case basis;
  - formally approve implementation of the two national business rate relief schemes announced by Government: namely support for small businesses losing Small Business Rate Relief and a £1,000 business rate discount for public houses with a rateable value of up to £100,000.
- 6.2 Following approval of the local and national schemes, Executive Board are asked to note the intention to implement the three schemes at the earliest opportunity, and also that reliefs awarded will be backdated to 1<sup>st</sup> April 2017.
- 6.3 Implementation of the local and national schemes will be carried out by the Business Rates Manager.

## **7. Background documents<sup>1</sup>**

- 7.1 None.

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<sup>1</sup> 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.

## **Appendix 1: The Principles of the West Yorkshire Discount Scheme**

West Yorkshire Authorities have examined the possibility of a regional scheme with the following design principles:

- a)** The scheme should be as simple as possible. Administration will be difficult regardless, so keeping the scheme simple will minimise the burden, whilst also making it easy to understand for ratepayers;
- 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 in the small and medium bands as most properties fall within these two bands, and on the basis that business with large properties may be better placed to absorb the steep rise in rates;
- d)** It matches the Government's ambition that relief is only available to smaller ratepayers;
- e)** All national, statutory reliefs, reductions and exemptions will be applied before any calculation for Local Discretionary Rate Relief can be considered. This includes all other relief schemes announced at the March Budget.



## **Appendix 2: Q&A**

### ***Q. Why is the local West Yorkshire discount scheme only for small and medium businesses?***

- Councils are looking for a simple scheme that is easy to administer;
- The West Yorkshire scheme mirrors the existing Transitional Relief statutory thresholds for small and medium properties;
- The West Yorkshire criteria matches the Government's ambition that relief is only available to smaller ratepayers (This assumes that businesses with large properties may be better placed to absorb the rise in rates without additional support);
- The percentage relief awarded across West Yorkshire Authorities (in year 1) should be the same (or very similar) based on the agreed criteria and design principles.

### ***Q. What percentage relief would be awarded to small and medium businesses?***

#### ***Q. How will different levels of government funding be dealt with each year?***

- In Year 1 the West Yorkshire Authorities are all seeking to award 50% of any rise in business rates following the award of all other reductions and reliefs;
- All Authorities reserve the right to amend this percentage relief (both in year in 2017-18 and at the beginning of each new financial year) based on any additional information, changes to the level of grant funding and/ or legislative guidance.

### ***Q. Are any properties specifically excluded from the West Yorkshire scheme?***

- State schools are excluded under section 47 of the Local Government Act 1988;
- Police and Fire authority premises are also excluded under section 47 of the Local Government Act 1988;
- Empty properties are excluded from the West Yorkshire scheme; relief can only be awarded if the property is occupied and trading;
- Large businesses, as defined by the existing national Transitional Relief scheme (those with rateable values over £100,000), 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. backdated Rateable Value reductions, additional reliefs awarded, property vacated, etc.)***

- Yes, the business rate charge would be amended due to any such changes in circumstances and may affect the level of relief awarded. The effective date would be the date of the change in circumstances.

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

- Yes the proposal is to award a set percentage for all increases in Rates after all reductions and reliefs have been awarded;
- Businesses themselves will be responsible for notifying West Yorkshire Authorities if State Aid rules should apply.

### Appendix 3: Transitional Arrangements for the 2017 Business Rates Revaluation

As with previous business rates revaluations, the Government has introduced a transitional scheme to phase in the impact of both increases and reductions in business rates liability. Under this scheme the amount by which a business's liability increases or reduces compared with their 2016/17 liability is capped. The permitted percentage changes in liability are shown in **Table 1** below. The applicable percentage is dependent on the rateable value of the property. Large properties have a rateable value exceeding £100,000, medium is above £28,000 in London and above £20,000 elsewhere and small is up to £28,000 in London and £20,000 elsewhere.

**Table 1: Transitional Arrangements for the 2017 Revaluation**

	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Upwards Cap</b>	<b>Small</b>	5.0%	7.5%	10.0%	15.0%	15.0%
	<b>Medium</b>	12.5%	17.5%	20.0%	25.0%	25.0%
	<b>Large</b>	42.0%	32.0%	49.0%	16.0%	6.0%
<b>Downwards Cap</b>	<b>Small</b>	20.0%	30.0%	35.0%	55.0%	55.0%
	<b>Medium</b>	10.0%	15.0%	20.0%	25.0%	25.0%
	<b>Large</b>	4.1%	4.6%	5.9%	5.8%	4.8%

These are year on year on increases and decreases not including inflation. So, the maximum possible increase for a small property over 5 years would be 64% of their 2016/17 business rates liability. If the business rates liability for a small property has increased by 7% as a result of the 2017 revaluation, that business would reach their full bill in year 2.

Transitional relief is intended to be self-funding at a national level. Businesses experiencing a cap on reductions to their bills will be paying more than their new reduced liability. This 'excess payment' is used to fund businesses with an increased liability, where they are not meeting their liability in full because their increase is capped.

The impact of the revaluation in Leeds is very mixed. As shown in **Table 2**, there are more properties in Leeds subject to capped increases than those subject to capped reductions. However, the impact of upwards and downwards caps is such that businesses in Leeds with capped reductions are paying £34.2m more in 2017/18 whilst businesses with capped increases are receiving only £12.2m in transitional relief. The net position for Leeds is therefore an excess payment of £22m, which is paid across to Government as part of the self-funding national scheme.

**Table 2: The Impact of the 2017 Revaluation in Leeds**

<b>Property Size</b>	<b>Upwards Cap</b>		<b>Downwards Cap</b>	
	<b>Number of Properties</b>	<b>Value of Transitional Reliefs</b>	<b>Number of Properties</b>	<b>Value of 'Excess Payments'</b>
<b>Large</b>	94	£4,591,932	1,015	£2,016,648
<b>Medium</b>	1,176	£3,950,623	2,088	£8,359,521
<b>Small</b>	7,410	£3,665,620	2,875	£23,872,468
<b>Total</b>	<b>8,680</b>	<b>£12,208,175</b>	<b>5,978</b>	<b>£34,248,637</b>