

NEW BUSINESS RATES DISCRETIONARY RELIEF SCHEME 2017-18**Responsible Officer** James Waltone-mail: James.walton@shropshire.gov.uk Tel: (01743)
257775**1. Summary**

1.1. The Government announced in the spring budget of 2017 three additional schemes to support businesses as a result of the introduction of the 2017 rating list. All three schemes are to be administered through discretionary relief powers under section 47 of the Local Government Finance Act 1988, and financed through grant payments under Section 31 of the Local Government Act 2003. The three schemes are:

- Supporting Small Businesses
- New Business Rate Relief for pubs
- New Business Rate Relief Scheme

1.2. This report details proposed parameters for the new business rate relief scheme for Council approval.

2. Recommendations

Cabinet are asked to:

- A. Approve the proposals for the New Business Rate Relief Scheme and confirm the arrangements for consultation as set out in the report.
- B. Confirm a delegation to the Head of Finance, Governance and Assurance, in consultation with the Portfolio Holder for Finance, to finalise the scheme for 2017-18 following consultation.

3. Risk Assessment and Opportunities Appraisal

- 3.1. The authority has a statutory duty to bill and collect business rates.
- 3.2. Funding has been made available to Shropshire Council to support local businesses receiving the largest increases in Business Rates following revaluation in April 2017. As funding cannot be carried forward into future years, the assumption is to attempt to allocate all available grant to local businesses. There is a risk that any under-allocation will result in funds being returned to government that would otherwise have been made available to the local economy. Conversely any over-allocation will need to be funded from Shropshire Council's own resources and there is a risk that over-allocation would reduce the availability of Council resources. To mitigate this officers will design the scheme to maximise use of the funding, monitor the award throughout the year and revisit the scheme later in the year to ensure, as far as possible, that all funds are spent. Also, due to the reducing nature of the grant over the four year period the Council will be required to review its scheme parameters in subsequent years to ensure that the grant funding continues to be distributed to businesses in most need.
- 3.3. There are a very large number of small to medium businesses in Shropshire (approximately 12,000) and without a clear focus for a local scheme, there is a risk that a scheme could become unworkable and could allocate insubstantial amounts of funding across a wide number of businesses. Furthermore, the costs of administering a local scheme could significantly outstrip available resources if designed inappropriately. To mitigate this the scheme is designed to target the most appropriate businesses, although costs of administration are likely to exceed the £12,000 'New Burdens' grant payable to the Council to administer the scheme.
- 3.4. The necessity to design a local scheme over such a large tax base with the inherent complexity of having to take account of other schemes and reliefs (such as small business rate relief, transitional relief and surcharge, local pub relief) creates a risk that some 'qualifying' businesses could be missed. To mitigate this the scheme will be consulted upon.
- 3.5. The revaluation in April 2017 has led to some very large increases in RV for some businesses. This increase has been offset to some extent by changes to the multiplier but more significantly by the impact of transitional relief and other reliefs available. As a result, many businesses that have seen a large increase in their RV have not seen a large increase in their actual liability for 2017/18. This has resulted in the necessity to design a more complex local scheme to ensure the funding is spent, but that it is targeted to the most appropriate businesses. Some qualifying businesses, as a result, will see a minimal increase in their rates bill in 2017/18 when compared to 2016/17, despite their RV increasing by, perhaps, 4 to 5 times. As the New Business Rate Relief Scheme funding cannot be carried forward into future years, there is a real danger that businesses are not fully aware of the impact of the RV increase in later years given the confusing and complex arrangements in place this year. There is a risk that businesses in Shropshire will, to a greater extent, need New Business Rate Relief Scheme funding in later years, but

with the funding available tapering significantly, and with the inability to carry funding forward, there will not be the support available for these businesses at that time. To mitigate this, we will ensure that correspondence with local businesses gives as full and complete an explanation of the scheme as possible. A reputational risk for the Council in these later years, however, remains and there is an expectation that complaints and requests for discretionary relief will increase in later years with no means available to fund this.

4. Financial Implications

4.1. The two national business rate relief schemes announced by Government; namely support for small businesses losing Small Business Rate Relief and £1000 business rate discount in 2017-18 for local pubs with a rateable value up to £100,000 will be fully funded by central Government through payment of Section 31 grant.

4.2. The Government also announced £300 million of funding over four years for local authorities to establish local discretionary schemes 'to deliver targeted support for the most hard pressed ratepayers' (New Business Rate Relief Scheme). The amount of grant available reduces over the four year period. The grant allocation is based on the total increase in bills (excluding the impact of transitional relief and other reliefs) for every rateable property in the billing authority's area that satisfied the following conditions:

- The rateable property has a rateable value for 2017-18 that is less than £200,000;
- The increase in the rateable property's 2017-18 bill is more than 12.5% compared to its 2016-17 bill (before reliefs)

4.3. Summing the total increase in bills in all billing authority areas and distributing the available funding in each year dependant on the level of the total increase in bills in an individual authority area against the total increase in all areas.

4.4. Shropshire Council has been allocated the following share of the fund over the four year period.

| | Amount of discretionary pot awarded (£000s) | | | |
|---------------------------|--|----------------|----------------|----------------|
| Year | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Shropshire Council | 1,308 | 635 | 262 | 37 |

4.5. The Government have made it clear that they will only fund local authorities up to the agreed grant share levels detailed above.

4.6. The Government confirmed in a letter to Local Authority Leaders dated 21 July 2017 that there were no plans to allow end of year flexibility with regards to this year's allocation of the grant. That means that any money that we do not spend of the £1.3 million this year will have to be returned to central Government.

- 4.7. Government has promised a New Burdens grant of £12,000 for each authority to support administrative costs.

5. Background

- 5.1. All non-domestic property is subject to regular revaluation. The revaluation due for 1 April 2015 was postponed for two years and subsequently came into effect from 1 April 2017.

- 5.2. As with previous revaluations the Government has introduced a national transitional scheme to phase in the impact of both increases and reductions in business rate liability. Under this scheme the amount by which a business's liability increases or reduces compared with their 2016-17 liability is capped. For the 2017 rating list the national transitional relief scheme is more favourable to small businesses than to medium or larger ones. Small businesses with a rateable value of £20,000 or less already see their base liability increase capped at 5% plus inflation for 2017-18, medium businesses with a rateable value more than £20,000 but less than or equal to £100,000 see their base liability increase capped at 12.5% plus inflation, and larger businesses with a rateable value greater than £100,000 see their base liability increased capped at 42% plus inflation.

- 5.3. At the Budget on 8 March 2017 the Chancellor announced three additional measures to support businesses affected by the 2017 revaluation. These were:

- Support for small businesses and rural businesses which would otherwise lose small business rate relief or rural rate relief as a result of their increased 2017 rateable value, limiting increases in their bills to £600.00 each year. The Business Rates team have identified potentially 199 businesses that might qualify for this relief and application forms were sent to those businesses on 6 July 2017.
- A £1,000 business rate discount for public houses with a rateable value up to £100,000 for one year only. The Business Rates Team have identified potentially 246 businesses that might qualify for this relief and application forms were sent to those businesses on 6 July 2017.
- Additional funding over a four year period to English Local Authorities to establish local discretionary schemes 'to support those businesses that face the steepest increase in their business rates bills as a result of the 2017 revaluation' (New Business Rate Relief Scheme).

The Government have provided guidance on the qualifying criteria for the first two additional measures. The Council does not therefore have to approve the qualifying criteria for these additional schemes.

- 5.4. The third measure (New Business Rate Relief Scheme) requires each local authority to design and implement their own scheme. The Government have confirmed that it is for billing authorities to design their discretionary relief schemes and determine eligibility for support. They have assumed that

authorities will only provide support to those ratepayers who are facing an increase in their bills following revaluation, and have made that a condition of the grant. They have assumed, by and large that more support will be provided to ratepayers that face the most significant increases in their bills, and ratepayers occupying lower value properties. Funding arrangements detailed above were broadly calculated in line with these principles. The Government subsequently confirmed, however, that money does not have to be spent in accordance with the grant distribution methodology. It is for each authority to design its scheme as it sees fit.

- 5.5. On 22 June 2017 Marcus Jones MP, Minister for Local Government, wrote to all authorities expecting delivery of local schemes to begin by the end of June. Shropshire Council responded to this letter stating that a local scheme could not be designed within that timeframe, that the other two schemes could not yet be administered as software providers had not yet provided the appropriate updates, and requesting that funding could be carried forward to future years to better fit the needs of Shropshire Businesses.
- 5.6. On 21 July 2017, Marcus Jones MP wrote again to all local authorities stating that he had received assurance from the main software suppliers (including Northgate – Shropshire Council’s supplier) that relevant software updates would be available by 21 August, thereby enabling anything other than very simple local schemes to now be implemented. The letter also confirmed that there were ‘no plans to allow end of year flexibility with regard to this year’s allocations’. We have taken this as confirmation that any un-spent grant at year end cannot be carried forward, which is not a good outcome for Shropshire. Officers have therefore now been able to propose a scheme based upon allocating all available funding to local businesses before the end of the current financial year.

Basic principles for Shropshire Council Discretionary Relief Scheme

- 5.7. Shropshire Council Officers have suggested the following principles to form the basis for the New Business Rate Relief Scheme, taking into account Government guidance, the makeup of the Shropshire Council business rates tax base, and feasibility in administration of the scheme.
- Relief will not apply to businesses with rateable value of £15,000 or less as eligible small businesses will be covered by small business rate relief. With effect from 1 April 2017 eligible small businesses with RV £12,000 or less will receive 100% small business rate relief, reducing on a sliding scale for eligible businesses with RV between £12,000 and £15,000.
 - Relief will only be provided to occupied properties
 - Relief will end when a property becomes unoccupied
 - New occupiers of properties will not receive relief, as relief is to protect ratepayers from large RV increases from the revaluation. New occupiers will not have been affected by the revaluation

- Relief will not be awarded to national businesses. Furthermore, notification to ratepayers will confirm the state aid limit, and confirm that a business must not receive more than 200,000 euros state aid in a three year period
- Charities already receive a minimum 80% mandatory rate relief and as such will be excluded from new discretionary rate relief
- Properties where the RV increases after 1 April 2017 will not receive relief as any revaluation after 1 April 2017 will be as a result of a material change, and not the revaluation. Any such business that qualifies for new discretionary relief will receive apportioned relief from 1 April 2017 up until the date of the material change
- Any RV increases with effect from 1 April 2017 should have a zero impact on the award of relief as transitional relief will adjust to compensate for the increase
- Any business that qualifies for new discretionary rate relief that has a reduction in RV with effect from 1 April 2017 will have new discretionary rate relief reduced accordingly, potentially to zero depending on the level of RV reduction
- Ratepayers that lost their entitlement to small business rate relief following the revaluation and who will have their increases in bills limited to £600 in 2017-18 will be ordinarily excluded from receiving additional relief under this scheme
- New discretionary relief will only be awarded after all other reliefs have been awarded

5.8. Working to the above parameters Council Officers have identified 1,129 businesses with a rateable value between £15,000 and £200,000 that have seen an increase in their net rates (after all other reliefs including transitional relief have been taken into account). The total increase for these businesses is estimated at £1,489 million which is in excess of the funding available in 2017/18. As a result, the final scheme will provide businesses with relief against the increase in their rates bills they have seen between 2016/17 and 2017/18 at a given percentage (for example, providing approximately 88% relief against the current increase in rates would ostensibly allocate the full £1.308m funding available). The final percentage allocation will be determined as part of the final scheme, calculated to award, as a minimum, the full grant entitlement for 2017/18.

5.9. Shropshire Council has over 12,000 businesses on its rating list. Of these, over 9,000 have a rateable value of 15,000 or less. Eligible small businesses with a rateable value of up to £12,000 receive 100% small business rate relief reducing on a sliding scale for eligible businesses with rateable value between £12,000 and £15,000.

- 5.10. With effect from 1 April 2017 Small Business Rate Relief is only available to ratepayers who occupy only one property in England, or occupy one main property and other additional properties in England providing that the additional properties have rateable values of not more than £2,899 and that the total rateable value of all the additional properties does not exceed £19,999. It follows that unoccupied properties, national businesses, and larger local businesses with several business properties will not qualify for small business rate relief. While surprising, in reality some businesses have never put in an application for relief.
- 5.11. Of the 9,000 business with rateable values up to £15,000, just over 5,000 businesses currently qualify for 100% small business rate relief as they meet the eligibility criteria and have a rateable value up to £12,000. Just over 300 businesses currently qualify for small business rate relief on a sliding scale with a rateable value between £12,001 and £15,000. Excluding both of these leaves approximately 4,000 businesses with rateable values up to £15,000 that do not receive small business rate relief and will not attract discretionary relief under the Council's proposed scheme.
- 5.12. Officers have reviewed the make-up of these 4,000 accounts and there may be some businesses that would consider that they have been adversely effected by the revaluation, but are not receiving any support through the discretionary scheme proposed above. For example, it may be that they are excluded from small business rate relief due to not meeting the eligibility criteria as a result of having additional properties. An overall analysis has identified that if businesses in the £0 - £15,000 RV category are not receiving small business rate relief and have a rateable value increase they may still receive protection from the transitional relief scheme. This scheme is favourable to smaller businesses and the maximum increase that they could have in their net rates as a result of the revaluation (i.e. comparing their 2017/18 rates bill to 2016/17) would be 7.1%, and the maximum financial increase would be £455.00 per year. When this is compared to the supporting small business rate relief scheme detailed above, it is more favourable than the capped increase in rates of £600.00 per year. Furthermore, the grant allocation methodology for the discretionary relief scheme was based on providing support where there has been at least a 12.5% increase in rates (before any reliefs) and the maximum increase of 7.1% falls below this.
- 5.13. As detailed in the Risk and Opportunities section a risk remains, with the manual design of such a complex local scheme involving the high number of businesses in Shropshire, that a business in exceptional circumstances may qualify for some form of local discretionary relief yet is 'missed' within the design of the scheme. This risk is considered to be low and Members are reminded that the Council already has discretionary powers to award relief to businesses in circumstances as it sees fit (for example hardship) which is delegated to the Council's Section 151 Officer. The Council currently has to stand 49% of the cost of any discretionary relief that is awarded.

6.0 Alternative Options Considered

- 6.1 When designing the proposed scheme above the following alternative schemes were considered.
- 6.2 To target all of the Government's funding for discretionary relief as a hardship fund for which businesses would have to apply. The option was discounted because of the considerable administrative challenge of assessing applications.
- 6.3 To target Shropshire Council's funds at a particular high street, area or economic sector. The option was discounted as the 2017 revaluation has significant impacts across the Council area and to focus the funding on just one locality or sector within the Shropshire area would be unfair.

7.0 Consultation

- 7.1 In the initial consultation document on the design and implementation of locally administered Business Rates Relief Schemes the Government stated that they expected billing authorities to discuss options with their major precepting authorities and where applicable consult their combined authority. Subsequent correspondence from Marcus Jones MP, now states that billing authorities should have consulted with local businesses. Consulting local businesses will add further time delays in awarding this relief to businesses but will be undertaken once approval for the scheme has been granted.
- 7.2 Due to the complexity of the scheme and the large number of businesses within Shropshire, Officers are proposing an open consultation on the website for a two week period, with an option to extend the consultation by a further two weeks should this be considered necessary. Business groups and representative bodies will be contacted to raise awareness of the consultation and seek their views. An Equality and Social Inclusion Impact Assessment (ESIIA) has been completed and the result of this is that this policy is not likely to have an adverse impact on any particular group. The ESIIA will be updated following receipt of the consultation responses. The ESIIA is at appendix A.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

N/A

Cabinet Member (Portfolio Holder)

Councillor David Minnery

Local Member

N/A

Appendices

Appendix A – Equality and Social Inclusion Impact Assessment (ESIIA)