Resources Scrutiny Commission

25 April 2017

Report of: Service Director - Finance

Title: Business Rates

Ward: City Wide

Officer Presenting Report: Denise Murray

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Recommendation

That the Business Rates report is noted

Summary

The report sets out details of business rates both under the existing rates retention scheme and the 100% rates retention pilot starting on 1 April 2017. Also included is information around reliefs, Section 31 grant, losses on appeals and the mechanics behind how the multiplier and tariff operate.

As this is a complex area an explanation of the main terms used is in the report is at appendix A.

Context

Introduction

1. Non-domestic rates, or business rates, are collected by billing authorities and are the way in which those that occupy a non-domestic property contribute towards local services. The introduction of the business rates retention scheme in 2013-14 allows local authorities to retain a proportion of the revenue that is generated in their area. In Bristol the split was 49% retained locally, 50% to Central Government and 1% to the Fire Authority.

2. In 2017/18, under the 100% rates retention pilot, the Council has estimated its net business rates collected to be £204.7m, with an overall contribution to the Councils budgeted funding of £149.8m.

3. Apart from properties that are exempt from business rates, such as parks and places of worship, each non-domestic property has a rateable value which is set by the Valuation Office Agency (VOA). Billing authorities work out the business rates liability for every hereditament by multiplying the rateable value of the property by the appropriate multiplier.

The Business Rates Multiplier

4. There are two multipliers, the standard multiplier and the small business multiplier. The former is higher because it includes a supplement which is used to fund the Small Business Rate Relief scheme (SBRR), which is designed to help small businesses meet the cost of their business rates.

5. The Government sets the multipliers for each financial year for England according to formulae set by legislation. Generally, the multipliers increase in line with the Retail Price Index in September of the preceding year. However in 2014-15, the Government capped the increase in the multiplier at 2%. For 2017/18 the multipliers are 47.9p and 46.6p

6. The Government announced in the Budget 2016 that it plans to use Consumer Price Index (CPI) rather than RPI from 2020-21 onwards. This was ratified in the Local Government Finance Bill (2016-17). The change in multiplier does have an impact on local government funding. CPI tends to increase less quickly than RPI, and therefore the growth in business rate income is likely to be lower. If all business rates are retained locally, then the lower increase will reduce the quantum of funding available to the sector over future years. Based on recent trends (Apr 2010 to Mar 2016), RPI has increased by an average of 2.8% compared to 2.1% for CPI. Over 25 years, business rate income would be 22% higher using RPI rather than CPI.

7. Both billing authorities and major precepting authorities will have the power to reduce the multiplier in their area. This will be called a “multiplier discount”. This will partly address concerns from some local authorities of competitive reductions in rates to attract new businesses.

Small Business Rates Relief Scheme (SBRR)

8. SBRR is a scheme that provides a relief within the business rates system that can be granted to small businesses. The 2016 budget announced significant changes to the scheme, with SBRR applying to a greater number of businesses from 1 April 2017. The tables below outline the changes with an estimate of the number of businesses in Bristol likely to be affected. These changes are funded through S31 grant.

Current

RV	Relief
£6,000	100% relief
£6,001 - £12,000	Tapered % relief (referred to in para 11 below as temporary doubling)
£12,001 - £18,000	Lower multiplier only

1 April 2017 onwards

RV	Relief	Approximate no of accounts affected*
Up to £12,000	100% relief	3,500
£12,001 - £14,999	Tapered % relief with lower multiplier	1,000
£15,000 - £50,999	Lower multiplier only is applied to occupied properties	2,800 accounts currently have an RV of between £18,000 to £50,999

*based on current valuations which may change from 1 April 2017

9. In addition to the Small Business Rate Relief scheme, rateable properties may also be eligible for other discounts or reliefs on their business rates bills. Some of these are mandatory i.e. they are automatic entitlements in any billing authority area e.g. Charitable rate relief (at 80%), or Empty Properties relief (normally for up to 3 months). Business rates payers may also receive discretionary relief which are granted at a billing authority's discretion. The table below shows the types of discretionary relief paid by the Council along with the associated cost.

Discretionary Relief	Cost to BCC 2017/18
S44A Partly Occupied Properties	£94,000
Not For Profit Charity Groups	£297,040
Not For Profit Leisure Centres*	£203,040

*The relief forms part of a service level agreement with the leisure centre operators.

10. Any discretionary relief granted has a direct impact on the Council's income. Relief under section 44a would be considered for instance where it would assist a business to relocate within the city providing it is in the best interests of the taxpayers. Changes are being considered to the criteria for awarding discretionary relief to not for profit/charitable organisations so that we can continue to provide support for many organisations that contribute to the community, but reduce the burden on taxpayers.

S31 Grants

11. Central Government compensates local authorities for changes made to the national non-domestic rates scheme by way of S31 grants. This compensation is made outside of the rates retention scheme. S31 grant currently funds the following measures;

- Capping the increase in the small business rates multiplier
- Temporary doubling of the small business rates relief
- Maintaining small business rates relief on "first" properties
- Relief to newly built properties
- Relief awarded on the occupation of "long-term empty" properties

12. For 2017/18 Bristol anticipates receiving £8.7m in the form of S31 grant. This is an increase of £4.4m on 2016/17 and reflects both the effects of the revisions to SBRR and the 100% business rates retention pilot.

Losses on Business Rates Appeals

13. The Council is required to provide for potential appeals from its business rates income. Calculations for the provision are based upon the Valuation Office Agency (VOA) 'Settled and Outstanding" proposals at end of March reports. These reports show all appeals that have been lodged for each authority against the 2010 valuation listing including those which were agreed, dismissed, withdrawn or are still outstanding. This list is analysed into "types" of appeal. The average success rate and the percentage reduction in rateable value for those appeals which were successful is considered along with the potential for the backdating of any appeals decisions and the estimated annual cost was then adjusted by the ratings multiplier for the relevant year. Local intelligence is used alongside statistical modelling to inform decision making.

14. The appeals process introduces significant volatility into budgeting for business rates, as there is no requirement for the VOA to provide information to the City Council in order for us to make timely, informed decisions. These appeals are often back dated with the full refund being made from in-year income.

15. As the amounts involved can be significant the Council takes a very prudent approach when calculating any likely impact of an appeal. Officers have estimated a further increase in the provision of £7.1m is required at the end of 2016/17. This will take the total provision to £21m. The provision has been compared to that of both our nearest neighbours and similar sized authorities nationally. Bristol's appeals provision is very close to the national median, which would suggest the provision has been well calculated.

16. The Local Government Finance Bill (2016-17) includes a decision to nationalise the cost and risk of business rate appeals. Its proposal is to make a payment to compensate authorities for refunds that they make following a successful business rates appeal. This will substantially change the way that local authorities operate the business rate system locally, and the risk they have to manage. It could also have distributional implications. Details of how the system will work is not set out in the Bill. There are indications that it will be funded using a top-slice on overall local government resources. This could potentially have significant distributional implications. The range of losses from appeals in different parts of the country can be significant: in simple terms, city-centre authorities tend to have higher losses from appeals than rural authorities. A top-slice will therefore benefit those authorities with the highest losses from appeals.

17. It is worth noting that the Bill refers to "Loss Payments" rather than specifically "appeals": it could possibly give the Government some scope to compensate for other changes (such as transfers between the local and central lists).

Enterprise Areas and Enterprise Zones

18. Enterprise Areas (EA) and Enterprise Zones (EZ), also known as designated areas allow 100% of business rates growth to be retained locally and baselines are set for 25 years, to maximise the incentive for

investment. This is the main difference between this scheme and other rates retention arrangements including the pilot, where the baseline is reset every five years. The Government has stated that there will be no detrimental impact to any Designated Area from the introduction of 100% rates retention.

19. Enterprise Zones represent Government policy and they support their delivery; Enterprise Areas have been designated as such by the Local Enterprise Partnership. Whilst both offer the benefit of business rates retention, the policy driver for this in the EZ comes from Government's EZ policy; in the case of the EAs it comes from the City Deal business rates retention mechanism. Government actively promotes Enterprise Zones and funds EZ business rates discounts in these areas; it does not actively market the LEP's Enterprise Areas, nor provide business rates discounts. The LEP promotes and markets these. The West of England LEP ran a competition to determine the location of its EZ in summer 2011, which Temple Quarter won; areas covered by unsuccessful bids were given EA status by the LEP. The two EA's in Bristol are Avonmouth and Filton.

20. Under the City Region Deal, Bristol City, Bath & North East Somerset, North Somerset and South Gloucestershire Councils ("the Authorities") are part of a Business Rates Retention Scheme, introduced by the Government in April 2013, allowing Authorities to retain a proportion of the business rates collected locally. The Authorities are allowed to retain 100% of the growth in business rates raised in the City Regions network of Enterprise Areas over a 25 year period ending on 31/3/2039 to create an Economic Development Fund for the West of England and to manage local demographic and service pressures arising from economic growth.

21. The four Unitary Authorities will pool the business rates growth from the existing five Enterprise Areas and the Temple Quarter Enterprise Zone (TQEZ). The pooled business rates growth will be used for three primary purposes. The first call on the Business Rate Pool will be to 'repay' each local authority what it would have had under the national local government finance system. Secondly, payments up to the value of £500m will be made to the Economic Development Fund (EDF). Thirdly, payments to each Unitary Authority to mitigate local demographic and service pressures arising from additional growth will be made.

22. The EDF will receive contributions from the pool to apply towards the delivery of an investment programme to maximise economic returns for the West of England.

23. We are awaiting confirmation from Government that the legislation necessary to bring an extension of the Temple Quarter Enterprise Zone into force from 1 April 2017 has been tabled. The extension will include land bordering the River Avon in both Bedminster and St Philips, a number of sites on Bath Road and a number of development sites in the Redcliffe area. EZ business rates discounts will be available in the extension area and this, together with increased profile from being within the EZ, will hopefully increase the confidence of developers to take development sites forward. The EZ extension offers potential for 78,000 sq m of new commercial floor space in a mix of purely office and mixed use developments. It is estimated that this could deliver 4870 jobs over the 25 year life of the EZ extension.

The Business Rates Pilot

24. In its 2016 budget the Government committed to piloting the early implementation of 100% business rates retention in a number of areas. This offer was available to those authorities with a ratified devolution deal. Following Cabinet approval in October 2016, Bristol along with South Gloucestershire and Bath and North East Somerset (B&NES) Council's made a successful application to the Secretary of State to form the West of England Pilot.

25. On 13 February 2017 the S151 Officers from Bristol, B&NES and South Gloucestershire signed the 100% business rates retention pilot for the West of England. The agreement comes into effect from 1 April 2017 and expires on the national introduction of full business rates retention (2019/20 or 2020/21.)

Details of the Scheme

26. Pilot authorities will each retain 100% of locally raised business rates. They will also receive S31`grants in respect of Government changes to the business rates system. In return they will forego Revenue Support Grant (RSG) and various other grants, which will be rolled into the pilot with the funding source being switched from grant to the business rates retained under the pilot. Each authority's tariffs and top-ups will be adjusted to ensure cost neutrality. These pilots have been created to help the Government understand how 100% business rate retention would work in practice. It also gives the West of England Pilot the opportunity to help shape the national scheme.

27. Under the arrangement in place to the end of 2016/17 Bristol City Council retained 49% of business rates collected with 1% going to the Fire Authority. The other 50% was returned to government alongside the same from all other collecting authorities. Government then used that money in its entirety to fund local government through Revenue Support Grant or other specific grants.

28. Under the pilot agreement Bristol City Council will retain 94% of its business rates income with 1% going to the Fire Authority as before and 5% going to the West of England Combined Authority.

29. There are two key benefits from the 100% business rate retention proposal. Firstly growth in business rate income above the baseline will be kept by the authorities rather than being shared with government and secondly because a levy would no longer be payable on the additional business rates received as would have happened under the existing scheme. The Council will however pay a higher tariff. Income collected from the Enterprise Areas and Zones is excluded from the pilot and remains subject to existing pooling arrangements.

30. The three authorities in the pilot engaged an external consultant to model a number of scenarios under 100% business rates retention. These were remodelled once firm figures were available in January 2017.

31. The table below sets out the estimated business rates income for 2017/18 along with indicative figures for 2018/19 and 2019/20. This does not include income from the business rates pool or the associated S31 grant in respect of reliefs given in the Enterprise Zone. The pool will continue to operate outside of the pilot. The revised tariff has been calculated to ensure any changes in joining the pilot are fiscally neutral. The tariff is the difference between the business rates baseline funding level (BFL) after rolling

in revenue support grant (RSG) with the notional business rates baseline (BSB). The tariff will be adjusted throughout the life of the pilot to take account of changes in RSG.

Business Rates Pilot	Yield	2017/18	2018/19	2019/20
		£'000	£'000	£'000
Net Non-Domestic Rating Income		204,676	208,770	212,945
NNDR Yield - WECA	5%	-10,234	-10,439	-10,647
NNDR Yield - Avon Fire Authority	1%	-2,047	-2,088	-2,129
NNDR Yield - BCC	94%	192,395	196,243	200,169
LESS Tariff paid to Government		-53,456	-66,719	-80,138
ADD Section 31 Grants		7,652	7,622	7,593
Retained Business Rates		**146,591**	**137,146**	**127,624**
RSG Included in the above		**41,844**	**29,649**	**17,321**

32. The table below compares the estimates for business rates and RSG under the 49% retention scheme with figures modelled under the business rates pilot in which BCC retains 94% of net business rates collected. The net effect is an estimated additional income from business rates of £5.4m in 2017/18. This has been built into the base budget. This includes income in respect of the business rates pool.

Based on NNDR 1 Figures		50% Retention Scheme		100% Retention Scheme	Growth
		£'000		£'000	£'000
Net Non-Domestic Rating Income		204,676		204,676	
NNDR Yield - Government	50%	102,338	0%		
NNDR Yield - WECA	0%		5%	10,234	
NNDR Yield - Avon Fire Authority	1%	2,047	1%	2,047	
NNDR Yield - BCC	49%	100,291	94%	192,395	
LESS Tariff paid to Government		-4,077		-53,456	
ADD Section 31 Grants		4,346		8,735	
ADD EZ/EA Growth		2,097		2,097	
Net Pre Levy Income		**102,657**		**149,771**	
LESS Levy on growth		-159		0	
Retained Business Rates		**102,498**		**149,771**	
RSG Payment to BCC		41,843		0	
Total BCC Income		**144,341**		**149,771**	**5,430**

No Detriment

33. One of the underpinning concepts of the pilot is that no authority will be any worse off than under the 49% business rates retention scheme. In any year for which the pilot exists, to the extent that the pilot arrangements result in fewer resources being available to West of England Authorities than would have been the case under the existing local government finance regime, the Government will make good the difference, as measured at the level of the pilot area.

Risks

34. The concept of no detriment outlined above will ensure no authority within the pilot will be any worse off than under the 49% business rates retention. However there are a number of risks, namely that the growth estimates are not accurate and there could be distributional implications around the top-slicing of resources to contribute to a national provision for appeals.

35. A great deal of work was carried out by the three pilot authorities to ensure estimates of growth were robust and prudent. These were further reviewed and modified in January 2017 following completion of the NNDR1 return to the DCLG.

36. Bristol has compared the level of its appeals provision with other local authorities nationally and is satisfied that the amount set aside is appropriate. The government has yet to indicate how it will fund a national provision for appeals. However in completing business rates estimates for 2017/18 DCLG recommended that local authorities set aside a further 4.7% of net rates into their appeals provision. The three authorities in the pilot all followed this guidance. This results in a further contribution to the appeals provision of £11.1m.

Governance and Management of the Pilot

37. A draft agreement has been circulated to each of the S151 Officers in the authorities participating in the pilot. B&NES are the lead authority. The agreement sets out the key principles of the pilot, including that of no detriment, along with its governance arrangements. It is proposed that the S151 Officers will form a Governance Board and will be responsible for monitoring the performance of the pilot. The officers will seek to find unanimous agreement on all issues involving the Pilot. The pilot arrangement will remain in place until the pilot scheme is withdrawn by DCLG. It should be noted that outside of this agreement, individual authorities will retain their decision making powers.

The 2017 Budget

38. The Budget puts in place additional measures to support those businesses most affected by the 2017 revaluation of business rates. The Chancellor has given notice that business taxation will need to be changed so that it is more appropriate for the “digital age”. The preferred long-term approach will be set out in due course. A change in the way that revaluation is under taken will be consulted on before the next revaluation takes place.

39. It has been acknowledged that revaluation has raised some issues, especially for those coming out of Small Business Rate Relief (SBRR). The Chancellor announced three measures to help,

- Any business coming out of SBRR will benefit from an additional cap (maximum £50 pm increase in rates in 2017-18; subsequent increases will be capped at the higher of the transitional relief cap or £50 per month, whichever is higher). The additional cost will be funded by the Government but it is not clear how additional funding fits in with the transitional relief system.

- £1,000 discount on pubs with rateable values of less than £100,000. This discount will be funded by a new Section 31 grant. The Treasury estimates that cost to be £25m in 2017-18, and zero thereafter, suggesting that this is a one-year-only grant.

- A discretionary fund of £300m has been made available to support those businesses who are most affected by increases in their business rates bills in 2017-18. This support will be additional to the transitional relief scheme, which operates separately from this discretionary fund. Allocations to local authorities are spread over the next four financial years. The proposed Bristol share is a total of £1.673m split over the following years.

    - £976k in 2017-18
    - £474k in 2018-19
    - £195k in 2019-20
    - £28k in 2020-21

  Officers will be developing a policy and process to cover the award of this relief.

40. Bristol has responded to the invitation to consult on the locally administered business rates support scheme, both on the operation of the scheme and the grant allocations to local authorities.

Consultation and Officer Engagement

41. Local Tax Managers are actively involved with practitioners from across Core Cities which enables benchmarking and the sharing of best practice, and also with members of the Northgate Executive Board and User Group, ensuring Bristol is at the forefront of discussions on national issues. We maintain close links with the Institute of Revenues Rating and Valuation (IRRV) and have benefitted from the professional knowledge and the networking opportunities afforded by hosting meetings e.g. on '100% Rates Retention and the impact on Bristol and our neighbours', led by Dave Perry, Director of Corporate Resources and Deputy Chief Executive at South Gloucestershire Council, and very recently a valuable meeting on Business Rates called '1st April and Beyond', led by key Officers of the IRRV.

    Local Tax Managers and Finance Officers contribute to consultation on national issues including 100% business rates retention and the 2017 budget proposals around supporting those businesses who are most affected by increases in their business rates in 2017/18.

Financial Implications

As set out in the report.

Legal Implications

Public Sector Equality Duties

Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to -

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;

- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –

- tackle prejudice; and

- promote understanding.

The Scrutiny function plays an important part in assisting the Council in meeting its public sector equality duties and ensuring that the views of different communities and members of the public are taken into account in the development and delivery of services. Scrutiny work streams need to ensure that assessments of equalities impacts are an integral part of their work both in terms of scoping topics, gathering evidence and formulating recommendations.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Papers held in Corporate Finance

Explanation of Terms used in the Report **APPENDIX A**

Baseline – the existing non-domestic rating income for each authority which is uplifted each year in line with regulations.

Baseline Funding Level (BFL) – This calculation is made by the DCLG by applying the old formula grant process to the local share of the estimated business rates aggregate.

Billing Authority – a local authority empowered to collect non-domestic rates, includes unitary authorities in England.

Business Rates – a tax on the occupation of non-domestic property in England based on the notional annual rent for a property on the open market, known as the rateable value. Also called National non-domestic rates (NNDR)

Business Rates Baseline (BRB) – DCLG estimates the total yield nationally for business rates (the estimated business rates aggregate), then apply a proportionate local share to calculate the billing authority business rates baseline.

Discretionary relief – in addition to mandatory reliefs, local authorities have the power to award relief at their discretion provided the hereditaments meet locally set criteria, e.g., charity and non-profit making bodies.

Enterprise Zones – specific areas where a combination of financial incentives and reduced planning restrictions apply. Enterprise Zones benefit from a business rate discount for a five year period up to state aid de minimus levels.

Hereditament – the legal name for a unit of non-domestic property that is, or may become liable to NNDR and therefore appears on the rating list. These can include pylons, advertising hoardings as well as offices, shops, warehouses and public buildings. A hereditament can be several buildings together such as a university campus.

Mandatory relief – hereditaments are automatically entitled to relief for all or part of their rates bill provided they meet criteria set down in legislation. Local authorities receive S31 grant to reimburse them for these reliefs.

Rateable Value (RV) – legal term for the notional annual rent of a hereditament assessed by the Valuation Office Agency (VOA). Every property has a rateable value that is based, broadly, on the annual rent that the property could have been let for on the open market at a particular date. The RV is used in determining the rates liability and therefore the bill.

Revaluation – the rateable value of a property is generally re-assessed every five years to ensure changes in property market rent values are taken into account. The latest revaluation comes into effect in April 2017 and will use estimated property values as at 1 April 2015.

Section 31 (S31) grants – this refers to Section 31 of the Local Government Finance Act 2003 which makes it possible for government to pay local authorities grants towards their activities which are not covered by existing payment schedules or methods.

Small Business Rate Relief Scheme (SBRR) – a scheme that provides a relief within the business rates system that can be granted to small businesses.

Tariff – A local authority must pay a tariff if its individual authority business rates baseline is greater than its baseline funding.

Transitional Relief - The rateable value of properties are normally reassessed every five years (see **Revaluation** above) and transitional arrangements are in place which moderate significant increases and decreases in bills. The transitional scheme is designed to be revenue neutral over the life of the scheme. This revenue neutrality is achieved by phasing in both the decreases in the rate bills of those who benefit from revaluation, and also the increases in the rates bills of those who face higher rates bills due to revaluation.