

READING BOROUGH COUNCIL

REPORT BY HEAD OF CUSTOMER SERVICES & DIRECTOR OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	25 SEPTEMBER 2017	AGENDA ITEM:	14
TITLE:	REVALUATION DISCRETIONARY BUSINESS RATES RELIEF SCHEME TO IMPLEMENT NATIONAL BUDGET MEASURES		
LEAD COUNCILLOR:	CLLR LOVELOCK	PORTFOLIO:	LEADERSHIP
SERVICE:	CUSTOMER SERVICES	WARDS:	BOROUGHWIDE
LEAD OFFICER:	KIRSTY ANDERSON	TEL:	0118 9372144
	ALAN CROSS		0118 9372058
JOB TITLE:	INCOME & ASSESSMENT MANAGER	E-MAIL:	kirsty.anderson@reading.gov.uk
	HEAD OF FINANCE		alan.cross@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 To provide Policy Committee with an update on the Chancellor's Spring Budget 2017 changes in relation to Business Rates Relief and to propose a local revaluation Discretionary Relief Scheme that is designed to spend the money available and provide details of the implementation of the national Pub Relief Scheme, and also to review and refresh the Council's existing Discretionary Rate Relief Scheme.
- 1.2 The report has two appendixes
Appendix A New Revaluation DRR Guidance Note (draft)
Appendix B Revised Standard DRR Scheme Guidance Note (draft)

2. RECOMMENDED ACTION

- 2.1 To approve the proposed Revaluation Local Discretionary Relief Scheme as set out in paragraph 4.5 below & Appendix A.
- 2.2 To approve proposed changes to the Council's exiting Discretionary Relief Scheme as set out in Paragraph 4.12 below & Appendix B.

3. POLICY CONTEXT

- 3.1 The Council collects National Non-Domestic Rates (NNDR) under the Local Government Finance Act 1988. All local authorities pay 50% of what they collect to Central Government, and authorities such as Reading who collect much more than is needed to finance local services are required to pay a tariff and a levy on growth, the impact of which is that a further 25% gets paid to Government, Reading Borough Council only retaining 25% of what is collected.

4. THE PROPOSAL

- 4.1 Current Position:

The rateable value of all properties are normally reassessed every 5 years, but the 2017 revaluation which came into force on 1 April 2017 having been deferred by the previous (2010) Government for 2 years.

The 2017 Rates Revaluation has seen considerable increases in bills for some ratepayers and the Government introduced a transitional scheme to phase in both large increases and larger reductions. In Reading many more properties benefit from the phasing of increases than have seen their reduction damped.

However, even though the transitional scheme has provided some assistance, a large number of ratepayers still face considerable increases in their bills. Properties with a (new) rateable value above £100,000 can face increases of up to 44.5% after transitional relief. For those with the largest increases this can be repeated in 2018/19 in due course.

In the (pre-election) Spring Budget, the Government decided to introduce 3 measures to provide some additional support to businesses:

- Supporting small businesses
- New Local Discretionary Relief Scheme
- New Business Rate Relief Scheme for Pubs

The Government anticipates billing authorities (such as Reading) will use their discretionary powers under section 47 of the Local Government Finance Act 1988 to deliver these new reliefs, which are being funded by grant (which in some cases is cash limited) designed to put authorities in the same position as if the relief had not been given. However, the final scheme did not include year end flexibility and any money not used will need to be returned to Government at the year end.

4.2 Supporting Small Businesses Relief

Supporting small businesses relief was introduced for those ratepayers facing large increases as a result of the loss of small business rate relief. For Reading Borough Council it is estimated that this relief will apply to less than 42 businesses.

Its effect is to limit increases in business rates to a cash value of £600 per year (£50 per month). This cash minimum increase ensures that those ratepayers paying nothing or very small amounts in 2016/17 after small business rate relief are brought back into paying something.

Central government will reimburse billing authorities for the actual loss to them under the rates retention scheme of this new Supporting Small Businesses Relief.

The software for applying this relief was released to Local Authorities on the 21st August 2017; this is currently being tested and will be applied to relevant accounts as soon as possible.

4.3 New Discretionary Relief Scheme

In the Spring Budget the Chancellor announced that he would make £300m available nationally for local councils to finance business rates relief for revaluation support over a 4 year period. The Government consulted authorities about the distribution of this money and at that stage proposed year end flexibility (so effectively allocations could move between financial years). The Government confirmed these allocations just before the General Election, but removed the year end flexibility. The Government's extra funding intended to support relief schemes targeted at businesses facing a large increase in their business rates bill following the 2017 Revaluation.

Reading's allocation was is follows:

2017 £1,014k
2018 £ 492k
2019 £ 203k
2020 £ 29k

Each billing authority is required to devise its own local Discretionary Relief Scheme for the 2017-2018 financial year and before we can introduce our own scheme there is a requirement to consult with relevant major precepting authorities; in our case the Fire Authority (which officers have done). However, the precise distribution is at the discretion of the Council as a local authority.

4.4 Developing a Local Scheme

The Government has stated that it distributed money available based on properties having a rateable value under £200k and where the revaluation has caused an increase in the ratepayer's bill of more than 12.5%.

Most local authorities have taken these basic principles into their DRR scheme, although as a discretionary scheme, there is no obligation to do so. However, in developing a local scheme that has been funded by the Government, it may be difficult to defend not passing much of that funding on to ratepayers meeting similar criteria.

To decide how to use the money we analysed the impact of revaluation on all 5181 properties on the rating list. (This includes a few with a nil rateable value (RV), rising to the Tesco Distribution Centre with an RV of £7.62m).

Overall the revaluation increased the RV of the borough from £247m to £297m, and the (gross) rates payable from £113m to £126m. These figures are before transitional relief. The Transitional Relief scheme which is funded separately by Government constrains increases to under 5% + inflation for properties with new rateable value under £20,000, to 12.5% + inflation for properties with a rateable value of £20k-£100k, and 42.5% + inflation for properties with rateable value greater than £100k.

Officers therefore concluded that in very broad terms the government appears to be trying to partially extend the 12.5% transitional protection to properties with rateable value between £100k - £200k (but not specifically allowing for the inflation allowance).

We have calculated based on our database those properties that would not be eligible for varying reasons, including state aid rules, Reading Borough Council properties and where the bill has increased less than 2%.

This initial analysis is as below

	Exclude because	Properties	RV Total	£ billed
RV>£200k	Not funded by Government	311	166.6m	73.988m
RV<£100k	Increases relieved by TR	4,549	85.6m	31.698m

£100k-£200k Occupied by RBC	Legal constraint	8	1.3m	0.618m
Increase in bill is < 2% inflation	Not increasing above inflation	104	14.6m	7.251m
TAKING THE ABOVE OUT LEAVES				
		Properties	RV Total	£ billed
RV £100-£200k	Increase > 2%	209	29.8m	12.710m

This analysis therefore reduces the properties needing detailed consideration from over 5,000 to just over 200.

4.5 Officers then propose that consideration be given to agreeing some qualifying criteria.

- i) The ratepayer must be in occupation on 31/03/2017. No relief will be awarded to those taking up occupation on or after 01/04/2017.
- ii) No relief will be awarded if the property is empty on the 01/04/2017 (i.e. i) & ii) together mean only ratepayers occupying property at the time the Revaluation comes into effect should be able to benefit from the discretionary scheme).
- iii) Relief will be terminated on liability ending or the property becoming vacant & empty.
- iv) All other mandatory reliefs must have been applied for/considered prior to an application for Local Discretionary Relief being considered.
- v) The 2017 RV must be under £200,000 (and a "better buy" calculation will be carried out to ensure no-one is disadvantaged if they are already in receipt of other spring budget reliefs)
- vi) Where a property is formed following a split or merger after 31/03/2017, and the occupation has not in essence changed, and qualified before the split or merger a new calculation will be carried out (to ensure the ratepayer is neither advantaged nor disadvantaged from the split/merger).
- vii) Where there is an increase in RV and they were in occupation on 31/03/2017 relief will continue to be awarded if the RV remains under £200,000
- viii) Full recalculations will be made where reductions in RV for either the 2010 or 2017 RV are made (as these are highly likely to impact the rates payable based on the new list).
- ix) An application form must be completed by, or on behalf of the ratepayer. All applications will be considered on their merits. Relief is intended for those that have fallen out of Small Business Rate Relief or are facing large increases. Relief will apply from 1st April 2017. A new application may be required in each subsequent year if applicable (though we will give consideration in due course to a simplified process for 2018/19 for ratepayers facing further large increases whose essential circumstances are unchanged, noting that much less money is available for relief in the later years)

Exclusions

- i) Relief cannot be awarded to precepting bodies (i.e. the Fire & Police Authority), or the Council's own property.

- ii) Applications will not be invited from banks, building societies or other major financial institutions.
- iii) Applications will not be invited from large multi-national businesses or large chains (given likely State Aid issues - see below).
- iv) Applications will not be invited from the NHS, GP surgeries
- v) Money Lending Shops & Betting Shops will be excluded
- vii) Applications will not be invited from charities, as they already benefit from 80% Charitable relief.
- viii) Application from ratepayers who have had 2 summons within the last 3 years will not normally receive relief (on the basis that ratepayers who do not organise paying their bills properly should not benefit from a Council discretionary scheme).

4.6 The Government has advised that the relief is subject to State Aid Rules. State Aid law is the means by which the European Union regulates state funded support to businesses. Providing discretionary relief to ratepayers is likely to amount to State Aid.

We have next analysed the 209 properties above to identify those that are likely to fall out of relief because of the above proposed conditions.

4.7 Initial analysis of these properties, based on the above conditions and exclusions suggests just over 50 properties would fall out of the scheme, leaving around 150 potentially eligible properties.

Given that the Government's contribution is cash limited, we would propose developing a scheme that in effect gave an extra step in the Transitional Relief arrangements constraining increases to a lower level than 44.5% (but likely to be higher than 44.5%). At the time of writing work is being done to identify what level is affordable within the resource available, and an 18% step (including inflation) appears to be affordable.

4.8 Potential Further Claims

It is possible that during the year that some properties that currently have a new RV above £200k, so not entitled to help will receive a reduction in their RV, and come within the terms of the scheme. As the Government's funding is cash limited, we propose holding a small contingency back to deal with such eventualities. That sum will get added to if some initial recipients move from their property, or experience other changes. However, to ensure control of spend we propose that where the full funding allowance from Government has been distributed within the financial year, those that become eligible in year but at a time when funding is exhausted be held on a waiting list, and if funding becomes available because another ratepayer has vacated or had a change that results in them no longer qualifying for their original relief amount, that this released funding it is then made available to the next eligible ratepayer on the list. This will keep the cost of the scheme within the funding pot available.

4.9 Future Years

In future years the cash available falls and if we took this approach we could simply take a similar approach adjusting the magnitude to the allowed increase (but that can be considered in due course). In the first instance we propose that the scheme is for 2017/18; we intend to bring forward the 2018/19 scheme as part of the budget papers in February 2018 (which can include a review of actual operation, and a proposal to use up (most of) any unspent money).

This approach targets the available money on the properties with the largest increases for which the government has funded, so effectively we are extending the national transitional relief scheme to the extent affordable.

The proposed draft scheme is attached at Appendix A. (to follow)

4.10 New Business Rate Relief Scheme for Pubs

Business rate relief for pubs is a discount worth up to £1,000 a year where the rateable value is less than £100,000. Subject to state aid rules, it is estimated that 80 businesses in Reading may be eligible for this category of relief. This measure is a separate measure for the 2017/18 financial year only.

Those businesses identified have been contacted and invited to apply for this relief. We are currently applying this relief to accounts as the forms are returned.

The Government will reimburse billing authorities for the actual cost to them under the rates retention scheme of the relief that falls within the adopted criteria for pubs relief.

4.11 Other Options Considered

Members could choose not to recommend the proposed schemes for approval, but in view of the fact that expenditure will be reimbursed the Government expects billing authorities to grant relief to all qualifying ratepayers. If the money is not spent, it will have to be returned to Government.

4.12 Update to Existing DRR Scheme

We have reviewed our current Discretionary Rate Relief guidance and are suggesting the following amendments to our scheme given our current financial position, that the cost of this scheme has a financial consequence to Reading Borough Council as it has to be met from current Budget which impacts all residents within the borough.

We therefore propose to add to our existing guidance notes on Discretionary Business Rates Relief. In particular we propose restricting possible claims for backdating of relief which may cause financial pressures on the Local Authority during a financial year:

- Applications should be submitted by the 30th September following the financial year for which the application is being made. No further backdating will normally be considered.
- If successful DRR will be applied from the 1st of April of the financial year in which the relief has been applied for, or the date from which they became liable should this be later (providing that the application has been submitted within the allowable timescale above).
- Applicants must continue to pay rates as billed until a decision is made.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 The purpose of this section is to ensure that proposals contained in reports are in line with the overall direction of the Council by meeting at least one of the Corporate Plan priorities:

1. Safeguarding and protecting those that are most vulnerable;
2. Providing the best start in life through education, early help and healthy living;
3. Providing homes for those in most need;

4. Keeping the town clean, safe, green and active;
5. Providing infrastructure to support the economy; and
6. Remaining financially sustainable to deliver these service priorities.

5.2 The proposed scheme helps support the local economy and by only spending the money Government has made available contributes to financial stability.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 Our Precepting authorities have been sent a copy of the proposed schemes for comment.

7. EQUALITY IMPACT ASSESSMENT

7.1 Equalities considerations will be included in the examining individual application for the reliefs. However, given the nature of what the Government has asked us to do they will generally not be applicable.

8. LEGAL IMPLICATIONS

Section 47 of the Local Government Finance Act 1988 and subsequent amending legislation provides the criteria for awarding discretionary rate relief to certain categories of non-domestic ratepayer.

Section 69 of the Localism Act 2011 provides a new discretionary power to reduce business rates for any local ratepayer. It is this new power that the Government is directing billing authorities to use to award the new categories of relief.

Relief from taxes, including non-domestic rates, can constitute state aid under European Union legislation. There are block exemptions from the state aid rules where the aid is below a de minimis level. The de minimis level applies to all de minimis aid received, including other Government subsidies or grants, in addition to any rate relief given as a de minimis aid. It will be for the Council to ensure that any relief granted does not transgress state aid rules. The de minimis threshold is €200,000 from all sources to the recipient as a whole over a rolling period of three years.

9. FINANCIAL IMPLICATIONS

9.1 The council will receive funding from government for all local discretionary relief granted and this will be re-claimed via the yearly NNDR1 return which estimates for government the expected income received and reliefs granted. The Government is providing grant to put the General Fund in the same financial position it would have been had the relief not been given, after allowing for the levy on growth. Consequently to get the maximum amount of grant of £506,964, we need to give relief of £1,013,925 (essentially because our levy rate is almost 50%).

9.2 The government have announced that authorities will be granted New Burdens funding to deal with the implementation costs of this change but have not yet confirmed how much. However this is likely to largely be offset by extra costs (to budget) the Council will need to incur directly or indirectly from developing and implementing the scheme, so is ultimately budget neutral.

9.3 There is a risk to the authority where the Valuation Office changes a valuation or allows an appeal. This may have a consequential impact on the allocation of the discretionary relief; so we are proposing that where the full funding pot we have

been granted has been distributed within the financial year, those that become eligible in year at a time when no funding is available be held on a waiting list, and if funding becomes available because another ratepayer has vacated or had a change that results in them no longer qualifying for their original relief amount, that this released funding is then made available to the next eligible ratepayer on the list. This will keep the cost of the scheme within the funding pot available from Government.

10. BACKGROUND PAPERS

10.1 Business Rates Information Letter 2 (2017)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/598272/BRIL_2-2017_Budget_Measures.pdf

APPENDIX A

Reading Borough Council REVALUATION BUSINESS RATES DISCRETIONARY RATE RELIEF GUIDANCE

The authority to grant DRR is delegated to the Head of Customer Services in consultation with the Head of Finance.

Criteria

We will consider applications for Revaluation DRR from properties which on the 2017 rating list have a rateable value between £100,000 and £200,000. The scheme will cap increases in rates for such properties when in occupation (with no changes affecting liability) between 2016/17 and 2017/18 to RPI+16.25% or a lower increase, but no lower than RPI+12.5% as explained below, rather than the (up to) RPI+42.5% increase that would arise with the Government's Transitional Relief scheme

In addition, to qualify the following criteria will be considered.

- i) The ratepayer must be in occupation on 31/03/2017 and 1/4/2017. No relief will be awarded to those taking up occupation on or after 01/04/2017.
- ii) No relief will be awarded if the property is empty on the 01/04/2017 (i.e. i) & ii) together mean only ratepayers occupying property at the time the Revaluation comes into effect should be able to benefit from the discretionary scheme).
- iii) Relief will be terminated on liability ending or the property becoming vacant & empty.
- iv) All other mandatory reliefs must have been applied for/considered prior to an application for Local Discretionary Relief being considered.
- v) The 2017 RV must be under £200,000 (and a "better buy" calculation will be carried out to ensure no-one is disadvantaged if they are already in receipt of other spring budget reliefs)
- vi) Where a property is formed following a split or merger after 31/03/2017, and the occupation has not in essence changed, and qualified before the split or merger a new calculation will be carried out (to ensure the ratepayer is neither advantaged nor disadvantaged from the split/merger).
- vii) Where there is an increase in RV and they were in occupation on 31/03/2017 relief will continue to be awarded if the RV remains under £200,000
- viii) Full recalculations will be made where reductions in RV for either the 2005, 2010 or 2017 RV are made (as these are highly likely to impact the rates payable based on the new list).
- ix) An application form must be completed by, or on behalf of the ratepayer. All applications will be considered on their merits. Relief is intended for those that have fallen out of Small Business Rate Relief or are facing large increases. Relief will apply from 1st April 2017. A new application may be required in each subsequent year if applicable (though we will give

consideration in due course to a simplified process for 2018/19 for ratepayers facing further large increases whose essential circumstances are unchanged, noting that much less money is available for relief in the later years)

- x) The application process will require Ratepayers to confirm that receipt of the relief will not breach State Aid regulations (and ratepayers will be able to indicate how much relief they can receive without doing so)

The following will be excluded, even if the above criteria are met

- i) Relief cannot be awarded to precepting bodies (i.e. the Fire & Police Authority), or the Council's own property (including Local Authority Schools).
- ii) Applications will not be invited from banks, building societies or other major financial institutions. (for State Aid reasons)
- iii) Applications will not be invited from large multi-national businesses or large chains (given likely State Aid issues - see below).
- iv) Applications will not be invited from the NHS, GP surgeries
- v) Money Lending Shops & Betting Shops will be excluded
- vii) Applications will not be invited from charities, as they already benefit from 80% Charitable relief.
- viii) Application from ratepayers who have had 2 summons within the last 3 years will not normally receive relief (on the basis that ratepayers who do not organise paying their bills properly should not benefit from a Council discretionary scheme) unless the ratepayer can demonstrate that the summons was issued in arrears.

Discretionary Rate Relief

When granted, DRR will end on the 31 March of the financial year for which it was granted. Normally a new application will be required for each new financial year, though we will consider how this can be kept simple.

DRR will only be considered after all other eligible mandatory and discretionary reliefs have been applied.

Towards Year End Review

The scheme is being funded by a fixed Government grant; in order to ensure the allocation is spent there will be a review in February where the Council will endeavour to agree arrangements for fully using the allocation.

How to apply & Application Process

Applications should normally be submitted by as early as possible in the year for which relief is sought, though can be submitted later, up to 31 January. Applications will include a declaration that the receipt of DRR will not lead to a breach of State Aid Regulations. Applications after the date will not normally be considered (i.e. 2017/18 applications can be made up to 31/1/2018).

Applications will be invited from Ratepayers who in the opinion of the Head of Customer Services meet the criteria shortly after Policy Committee on Monday 25 September 2017. Ratepayers will be asked to reply by Friday 27 October in the first instance, and the Council will consider the applications received in the two weeks thereafter, and the Director of

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Finance will determine (after consultation with the Leader and Chair of Audit & Governance Committee), based on applications received the level of cap that is affordable within the allocation the Council has received from the Government. Relief will then be applied to accounts as soon as possible thereafter.

Applications that are received later than Friday 27 October will be considered and processed as soon as possible, but there may be a need to review the level of cap applying to late applications to a higher level (i.e. the ratepayer will pay more) for affordability reasons at the end of each month, so the Council reserves the right to consider applications in batches at the end of each month.

Applications will not normally be considered after 31 January 2018 (as if there is any unspent allocation at that stage a proposal will be brought forward in February 2018 to spend it before 31 March 2018).

- Applicants will be informed of the outcome once a decision has been made.
- If successful DRR will be applied from the 1 April for the financial year in which the relief has been agreed.
- Applicants should continue to pay rates as billed until a decision is made.

An application form for DRR is available to [download](#). For any queries, contact Business Rates on 0118 937 3727 or business.rates@reading.gov.uk.

Where to send your application form

Business Rates

Reading Borough Council

Civic Offices

Bridge Street

RG1 2LU

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APPENDIX B-

Reading Borough Council STANDARD BUSINESS RATES DISCRETIONARY RATE RELIEF GUIDANCE

The authority to grant DRR is delegated to the Head of Customer Services in consultation with the Head of Finance.

Criteria

We will consider applications for DRR based on the extent to which the application meets all of the following criteria:

- The extent to which the organisation helps the Council meet local needs
AND
- The extent to which the organisation matches priorities set out in the Council's Corporate Plan
AND
- It can be demonstrated that the organisation will face hardship if support is not provided through DRR

Maximum Discretionary Rate Relief

When granted, DRR will end on the 31 March of the financial year for which it was granted. Normally a new application will be required for each new financial year.

DRR will only be considered after all other eligible mandatory and discretionary reliefs have been applied.

In granting DRR we will consider the sustainability of the organisation.

DRR will only be granted if there is a risk that the organisation will become unviable, and that the granting of DRR in the short term will make the organisation sustainable for a reasonable period in the future.

There are a number of exceptions:

- Early Years Providers will be considered for DRR as part of a funding formula that targets children and families in greatest need. Both privately owned and voluntary managed Early Years providers will be eligible. Please contact the Early Years and Play Services on 0118 937 3737.
- Voluntary, not for profit and private sector providers that are currently commissioned to provide services on behalf of Reading Borough Council will not generally be considered for DRR as they should already have demonstrated that they are financially viable at the start of the arrangement.

How to apply

Applications should normally be submitted by 30 June in the year for which relief is sought, though can be submitted later. But will not be considered after 30 September in the following financial year to that which the application is being made for (i.e. 2017/18 applications can be made up to 30/9/2018). No further backdating will be considered.

- Applicants will be informed of the outcome once a decision has been made.
- If successful DRR will normally be applied from the 1 April (or occupation of the property if later) for the financial year in which the relief has been agreed, or the date from which they became liable should this be later (providing that the application has been submitted within the timescale above).
- Applicants should continue to pay rates as billed until a decision is made.

An application for DRR for charitable / not for profit organisations is available to [download](#). For any queries, contact Business Rates on 0118 937 3727 or business.rates@reading.gov.uk.

Where to send your application form

Business Rates

Reading Borough Council

Civic Offices

Bridge Street

RG1 2LU