

Item No.	Classification: Open	Date: 4 April 2018	Decision Taker: Cabinet Member for Finance, Modernisation and Performance
Report title:		Discretionary Rate Relief Policy 2018 - 19	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the 2018-19 discretionary relief policy for revaluation relief set out within Appendix 1 be agreed by Cabinet Member for Finance, Modernisation and Performance.

BACKGROUND INFORMATION

This report outlines the changes to revaluation relief, continuation of supporting small businesses relief and the one year extension of pubs relief.

2. As reported to Cabinet in July 2017 (Policy and Resources Strategy: 2017-18 and 2018-19 Financial Remit), in the Government's spring 2017 budget, three business rates related announcements were made aiming to mitigate the impact of the national 2017 revaluation. These schemes were:
 - a business rates discretionary support fund allocated to local authorities for 2017/18 to 2020/21.
 - increased targeted support from 2017-18 to 2021-22 for those businesses that lost small business rate relief entitlement as a result of the 2017 revaluation 2017.
 - a one year £1,000 business rate discount for public houses with a rateable value of up to £100,000.
3. The Government did not amend legislation but councils are expected to use their discretionary powers under Section 47 of the Local Government Finance Act 1988 (which were introduced by the Localism Act 2011) to grant relief and will then be reimbursed by the Government.
4. The Government established a 4 year discretionary relief fund to support businesses after the 2017 revaluation, but the on going design and administration of schemes is for local authorities to decide.
5. On 19 September 2017 a report was presented to Cabinet in relation to the 2017 business rates discretionary relief policy that incorporated these new relief schemes.
6. A new revaluation relief scheme must now be considered for 2018/19 as a result of the change in funding from Government.

7. In the Autumn Budget 2017 the Government announced the pubs relief scheme would be extended by a further year from 1 April 2018 to 31 March 2019.

Revaluation Relief

a) Introduction

8. From the 1 April 2017 all commercial properties were revalued by the Valuation Office Agency (HMRC) and set a new rateable value upon which business rate bills are calculated. Up until 2010, revaluations were undertaken every 5 years but there was no revaluation in 2015 so this was the first since 2010.
9. The 2017 revaluation resulted in a large number of businesses having significant increases in their rateable values. In response to this the Government announced in the 2017 Spring Budget that £300m in national business rate funding would be made available to support businesses facing significant increases.
10. An existing system of transitional relief is available to businesses and applied automatically to their accounts. This reduces year on year. Government has confirmed that as per transitional relief the discretionary relief available must be used 'in-year' therefore businesses will experience significant increases in their rates in years three, four and five.
11. Funding for revaluation relief is provided by Government but is not a centrally prescribed scheme. It is up to local authorities to design their own schemes as to how to allocate their share of the funding.
12. Southwark's allocation for those businesses that may qualify for revaluation relief is:

2017/18	2018/19	2019/20	2020/21
£4.02m	£1.95m	£0.8m	£0.11m

13. The Government has confirmed that yearly allocations for revaluation relief must be spent in that year and local authorities do not have flexibility in distributing the funding across the four years.
14. The revaluation relief scheme is reviewed yearly. It is not possible to accurately determine the level of relief for future years. Businesses in Southwark are highly transient; meaning the number of eligible businesses in future years is unknown. As a result, a revised scheme is considered each year to ensure the funding from Government is fully utilised but not exceeded as Southwark would have to share the cost of any overspend.

b) 2018/19 revaluation relief

15. The fixed funding allocation for 2018/19 more than halves from £4.02m in 2017 to £1.95m in 2018.

16. Southwark's 2018/19 scheme mirrors 2017. It remains based on the principle that relief should be targeted to small and medium size businesses that are facing an increase in their bills this year. Relief will continue to be provided as widely and evenly as possible with the scheme being simple and transparent.
17. Due to the reduction in funding and in order to maintain support for smaller businesses the 'large' banding is now removed from the scheme for 2018/19. This removes support for 162 businesses but enables small business to retain the same level of support as in 2017.
18. Details of the scheme are set out in the discretionary rate relief policy attached as appendix B. Businesses that are eligible for relief will satisfy the following criteria:
 - The property they occupy has a rateable value below £100,000
 - They were in occupation prior to September 2016 (date of revaluation)
 - They have had an increase in their bills *after* all relevant reliefs have been applied

Businesses will not qualify if:

- They occupy more than one property in Southwark
- They are a national or multinational company
- They are a betting shop or financial service (e.g. banks, cash points, payday lenders)
- The property is unoccupied
- The property is occupied by Southwark Council, the GLA or another local or central government organisation

c) How relief is calculated

19. Relief will be awarded against the amount a business's bill has increased by in 2018. To provide more relief to small and medium sized businesses a banded relief scheme will be adopted as set out below:

RV size	Reduction %
S (0-28,000)	100%
M (28,001 – 100,000)	52%

i) Small businesses

Small businesses are defined as having a rateable value of £28,000 and under. Under Southwark's scheme these businesses would receive 100% relief on the amount their bill has increased by in 2018. For example:

2017 bill	2018 bill	Increase	Relief	Relief awarded
£1895	£2495	£600	100% on increase	£600

As all small business will receive 100% relief on the value of their 2018 bill increase they will not pay any more in business rates this year than they did in 2017.

ii) Medium sized businesses

Medium businesses are defined as having a rateable value of £28,001 - £100,000. The amount of relief awarded is dependent on the amount the bill has increased by in 2018 as set out above. For example:

2017 bill	2018 bill	Increase	Relief	Relief awarded
£15,851	£18,189	£2,338	52% on increase	£1,215

In this example the business will pay £16,973 this year, instead of the full bill of £18,189.

- 20. Revaluation relief will be calculated on the net liability after all other reliefs have been awarded.
- 21. Relief will only be awarded if a business remains in occupation of the property and will be re-calculated pro-rata if a business vacates before the 31 March 2019.

d) Awards

- 22. Relief awards will be applied automatically to accounts without the need for businesses to complete an application form.
- 23. Roll out of reliefs will begin the week commencing Monday 23 April 2018 and it is estimated that all reliefs will have been awarded within 6 weeks.
- 24. The relief will be subject to State Aid De Minimis Regulations whereby businesses must not exceed €200,000 of De Minimis aid in a rolling three year period. An award letter will be issued when a relief is granted requiring the ratepayer to confirm they have not received any other State Aid that exceeds this.

e) Additional support

- 25. Of the £1.95m funding for 2018/19 approximately £195,000 (10%) will be ring fenced for those local businesses that may fall outside the scheme because they occupy more than one property, or because they have fallen out of the scheme as a result of being in the 'large' banded category.
- 26. The exact level of awards will be modelled after the main scheme reliefs are awarded.

f) In year adjustments

- 27. The business rates base fluctuates on a daily basis through liability changes, for example, businesses moving in and out of premises, or splits and mergers of premises. These changes mean that over the course of the year the amount of revaluation relief awarded reduces as businesses fall out of the scheme.

28. Modelling to distribute the revaluation relief funding can only be done on a snapshot of the business rates base on any particular day. As a result the amount of relief funding allocated will reduce in line with business falling out of the scheme mid year due to liability changes.
29. The policy allows a revision of the level of reliefs set out in paragraph 19 to take into account funding being made available as a result of liability changes. The level of awards will be reviewed at regular intervals in the year and discretion used to increase the level of relief should the in year funding allocation not be fully utilised.

Second relief scheme - Supporting small businesses relief scheme

30. Within the 2017 Spring Budget the Government announced a new relief for small businesses who had lost some or all of their Small Business Rates Relief as a result of the revaluation by capping their increases to £600 per annum.
31. Prior to 1 April 2017 businesses with a rateable value of £6,000 or below were entitled to 100% small business rates relief. Those with rateable values of between £6,001 to £12,000 received a tapered relief from 100% to 0%.
32. As a result of the revaluation the Government increased these thresholds to £12,000 for 100% relief and £15,000 for the tapered relief.
33. However, the revaluation caused larger increases for some businesses with the result that some will have lost some or all of their small business rates relief despite the threshold increases. In Southwark approximately 518 businesses lost some or all of their small business rates relief in 2017.
34. Transitional relief does not provide support in respect of changes in reliefs and therefore those businesses that are losing some or all of their small business rates relief will have faced large increases in their bills.
35. The relief will be subject to State Aid De Minimis Regulations whereby businesses must not exceed €200,000 of De Minimis aid in a rolling three year period. An award letter will be issued when a relief is granted requiring the ratepayer to confirm they have not received any other State Aid that exceeds this.

Third relief scheme - Pubs relief scheme

36. Within the Government's package to support businesses following the 2017 revaluation a further relief was announced specifically for pubs. This was originally intended to be a one year only scheme, but in the 2017 Autumn Budget the Government announced they would extend the relief to the 2018/19 year.
37. The relief provides a £1,000 discount on business rates bills for pubs with a rateable value of under £100,000. Those pubs with a rateable value over this will not receive this additional support.
38. This relief is a prescribed scheme by the Government, further details of eligibility criteria is set out in detail in appendix A.

39. It is estimated that around 124 pubs within Southwark would qualify for this relief in 2018/19.
40. This is a one year scheme with the discount applied to bills for the 2018/19 year only.
41. The discount will be applied automatically to accounts without the need for businesses to complete an application form.

Funding of reliefs and State Aid

42. All reliefs are granted under Section 47 of the Local Government Finance Act 1988 (introduced by the Localism Act 2011).
43. The Council will be fully reimbursed through a grant under section 31 of the Local Government Act 2003.
44. The reliefs will be subject to State Aid De Minimis Regulations whereby businesses must not exceed €200,000 of De Minimis aid in a rolling three year period. An award letter will be issued when a relief is granted requiring the ratepayer to confirm they have not received any other State Aid that exceeds this.

KEY ISSUES FOR CONSIDERATION

Policy implications

45. The government funding for the new reliefs applies where the circumstances that attract the relief occur during specific periods:

Revaluation relief – 1 April 2017 to 31 March 2021
Supporting small businesses relief - 1 April 2017 to 31 March 2022
Pubs relief – 1 April 2017 to 31 March 2019

46. The discretionary rate relief policy provides for the reliefs to be granted where the Government will be fully funding the granting of reliefs through a central government grant and there is no cost to the Council.

Community impact statement

47. Extensive modelling was carried out to profile the impact of revaluation across businesses in Southwark.
48. The policy provides equality of access to discretionary relief, due to clear criteria for the award of relief and consideration of all awards in the same timescales.

Resource implications

49. The cost of rate relief is met from a central government grant. The estimated amount of relief for the financial year 2018/19 is outlined in the table below:

Type	No. of properties	Value of relief	Total value
Revaluation relief	2,297	52%-100% on bill increase	£1,950,000
Supporting small businesses relief	414	£600 cap on increases	£526,635
Pubs relief	124	Up to £1,000	£124,000
Total	2,835	-	£2,600,635

Consultation

50. A consultation exercise was carried out via Southwark's online consultation hub in August 2017 to gather the opinions of local businesses and residents to Southwark's revaluation scheme.
51. The consultation set out the banded scheme and asked respondents if they supported the scheme. Of the 40 responses 95% agreed or strongly agreed with it.
52. As the precepting authority we were required to consult with the Greater London Authority (GLA) regarding our revaluation scheme. The GLA stated it endorsed a banded scheme, highlighting that it is designed to target ratepayers facing the largest increases, is clear with a straightforward methodology to calculate relief awards and maximises the number of businesses receiving support.
53. Since revaluation relief was awarded in October 2017 we have continued to consult with local business through the Local Economy Team. Feedback demonstrates businesses continue to endorse a banded scheme that targets small businesses, along with additional support available to local businesses that occupy more than one premise.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

54. The report seeks the cabinet member's approval of a policy on the grant of relief in respect to national non-domestic rates for the 2018/19 year.
55. The decision is one which the cabinet member is able to make under Part 3 of the council's constitution.
56. The legislative basis for the three schemes of relief announced by the government, and their implementation by the council, is set out in the body of the report. The rules concerning the provision of financial support to organisations (state aid) are also referred to in the body of the report.
57. In the exercise of all of its functions, by section 149 Equality Act 2010 the council must have due regard to the need to
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
58. Procedural fairness may require the council to undertake consultation before taking a decision on a proposal (*R (Moseley) v Haringey London Borough Council* [2014] LGR 823). Where the council does consult on a proposal, it must always (i) ensure consultation takes place at a formative stage; (ii) give sufficient reasons to permit intelligent consideration and response; (iii) give adequate time for response; further, the response to a consultation must be conscientiously taken into account by a decision-maker before finalising any proposal. Attention is drawn to the report which describes the consultation carried out and feedback.

Strategic Director of Finance and Governance

59. The Discretionary Rate Relief policy for revaluation relief, supporting small businesses relief and pubs relief is designed to be cost neutral, with compensation for reduced business rates income and costs of implementing the scheme paid via a Section 31 grant.
60. The Government will reimburse councils for the actual cost of relief for small businesses and pubs, granted in accordance with its guidance. However, funding for the ‘Revaluation Relief’ must be contained within the funding allocated by the Government, which reduces from £4.02m in 2017/18 to £1.95m in 2018/19. As the relief reduces, local businesses will experience increases in their rates.
61. The ability to use the discretionary relief scheme annual grant allocations more flexibly across the four year period is not permitted and therefore, this proposal ensures we maximise the use of this annual “Revaluation Relief” grant allocation in each year. It is noted that the council bears the risk of 54.4% of any overspend of this grant in 2018/19 under the London Business Rates Pooling arrangement.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Cabinet report 18 July 2017: Policy and Resources Strategy: 2017-18 and 2018-19 Financial Remit	Finance and Governance 160 Tooley Street SE1 2QH	Paul Anderson 020 7525 7808
Cabinet report, 19 September 2017: Non-domestic Rates - Discretionary Rate Relief policy for revaluation relief, supporting small businesses relief and pubs relief	Finance and Governance 160 Tooley Street SE1 2QH	Paul Anderson 020 7525 7808

APPENDICES

No.	Title
Appendix 1	2018 Non Domestic Rates Discretionary Rate Relief Policy - Revaluation relief, supporting small businesses relief and pubs relief

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Dominic Cain, Director of Exchequer	
Version	Final	
Dated	4 April 2018	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	No	No
Date final report sent to Constitutional Team	4 April 2018	