

Item No.	Classification: Open	Date: 21 March 2019	Decision Taker: Cabinet Member for Finance, Performance and Brexit
Report title:		Non-domestic Rates - Discretionary Rate Relief policy for revaluation relief and retail discount 2019-20	
Ward(s) or groups affected:		All	
From		Director of Exchequer	

RECOMMENDATION

1. That the 2019-20 discretionary relief policy for revaluation relief and retail relief set out within Appendix 1 be agreed by the cabinet member for finance, performance and Brexit.

BACKGROUND INFORMATION

2. This report outlines the changes to revaluation relief, continuation of supporting small businesses relief and the introduction of the two year retail discount.
3. As reported to cabinet in January 2019 (Policy and Resources Strategy: 2019 – 20) in the Government’s autumn 2018 budget statement, a new business rates relief was announced for retail businesses with a rateable value under £51,000. This report sets out the implications and decisions for the council’s business rates discretionary relief policy:
 - continued business rates discretionary support fund allocated to local authorities for 2017-18 to 2020-21 (paragraph 10 - 36)
 - continued 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 (paragraphs 37- 42)
 - a two year business rate discount for retail premises with a rateable value under £51,000 (paragraphs 43 - 52)
4. The Government is not amending 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.
5. In the 2017 Spring Budget the Government announced a four-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.
6. Within the Spring Budget the Government also 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.

7. On 19 September 2017 a report was presented to cabinet in relation to the 2017 business rates discretionary relief policy that incorporated these two new reliefs.
8. The funding for revaluation relief decreases each year. A new revaluation relief scheme must now be considered for 2019-20 as a result of the change in funding from Government.
9. The Government has specified the criteria under which retail relief discounts can be awarded, but expects local authorities to identify and administer the schemes by which businesses are identified as being eligible for the discount.

Revaluation Relief

Introduction

10. 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 five years but there was no revaluation in 2015 so this was the first since 2010.
11. 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.
12. 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 four and five.
13. 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.
14. 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

15. 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.
16. The revaluation relief scheme is reviewed yearly. 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.

2019-20 revaluation relief

17. The funding allocation for 2019-20 more than halves from £1.95m in 2018 to £800,000 in 2019.
18. Southwark's 2019 scheme mirrors 2018. 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.
19. The implementation of the retail discount will mean significant reductions in bills for retail businesses. Approximately half of all businesses that qualified for revaluation relief in 2018 qualify for the retail discount in 2019.
20. The total value of awards under the retail discount will be substantially greater than the £800,000 revaluation budget as it is not capped. Those retail businesses that qualified for revaluation relief in 2018 are expected to receive approximately £3m in retail discounts, under revaluation relief they would have received £422,000.
21. In order to maximise the amount of relief available to Southwark businesses, retail premises will no longer qualify for revaluation relief from 1 April 2019.
22. By removing retail businesses from revaluation relief the council will be able to offer more relief to non-retail businesses. This enables us to retain 100% discounts on bill increases to small business as well as increasing the discount available to medium sized businesses to 69%.
23. In total, by removing retail businesses, the new revaluation relief scheme enables an extra £300,000 of relief to be awarded to eligible businesses across the borough.
24. Details of the scheme are set out in the discretionary rate relief policy attached as Appendix 1. 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
 - They have had an increase in their bills after all relevant reliefs have been applied
 - They do not qualify for retail discount.

Businesses will not qualify if:

- They qualify for retail discount
- 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 organization.

How relief is calculated

25. Relief will be awarded against the amount a business's bill has increased by in 2019. The bill increase is the difference between a business's 2018 bill before revaluation relief was awarded and 2019's net liability.
26. To provide more relief to small and medium sized businesses a banded relief scheme will be adopted as set out below:

RV size	Reduction on bill increase
S (0-28,000)	100%
M (28,001 – 100,000)	69%

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 2019. For example:

2018 bill	2019 bill	Increase	Relief	Relief awarded
£2,495	£3,195	£700	100% on increase	£700

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 2019 as set out above. For example:

2018 bill	2019 bill	Increase	Relief	Relief awarded
£37,977	£42,471	£4,494	69% on increase	£3,100

In this example the business will pay £39,370 this year, instead of the full bill of £42,471.

27. Revaluation relief will be calculated on the net liability after all other reliefs have been awarded.
28. 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 2020.

Awards

29. Relief awards will be applied automatically to accounts without the need for businesses to complete an application form.
30. Roll out of reliefs will begin the week commencing Monday 8 April 2019 and it is estimated that all reliefs will have been awarded within eight weeks.
31. 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.

Additional support

32. In line with previous years, of the £800,000 funding for 2019 approximately £80,000 (10%) will be ring fenced for those local businesses that may fall outside the scheme because they occupy more than one property.
33. The exact level of awards will be modelled after the main scheme reliefs are awarded.

In year adjustments

34. 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.
35. 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.
36. The policy allows a revision of the level of reliefs set out in paragraph 26 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.

Supporting small businesses relief scheme

37. 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.
38. 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%.
39. As a result of the revaluation the Government increased these thresholds to £12,000 for 100% relief and £15,000 for the tapered relief.
40. 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.
41. 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.

42. 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.

Retail discount

Introduction

43. On the 29 October 2018 the Chancellor of the Exchequer delivered the budget in which he announced a new business rates retail discount to be implemented from the 1 April 2019.
44. This discount is a third of the bill and is available to occupied retail premises that have a rateable value under £51,000.
45. Ratepayers who occupy more than one property will be entitled to the discount for each of their eligible properties.

Qualifying criteria

46. In November 2018 the Government published guidance notes setting out which types of properties would benefit from this discount.
47. Properties that are wholly or mainly being used as shops, restaurants, cafes and drinking establishments qualify. Properties not reasonably accessible to visiting members of the public, or that are being used for the provision of financial or professional services are not considered eligible.
48. Details of the types of businesses are set out within Appendix 1. The list provided by Government is not intended to be exhaustive and is a guide for local authorities as to the types of uses the Government considers for purposes to be retail. Local authorities are expected to determine for themselves whether a particular property is eligible for an award.

How the discount is calculated

49. The value of the discount is one third of the bill, and is applied after mandatory reliefs and other discretionary reliefs funded by section 31 grants have been applied. For example:

Net liability	Retail discount (33%)	Final bill
£ 4,561	-£ 1,505	£ 3,055

Awards

50. Discounts will be applied automatically to accounts without the need for businesses to complete an application form. However an application process will be made available to businesses that do not receive a discount but feel they meet the qualifying criteria.
51. Roll out of reliefs will begin the week commencing Monday 8 April 2019 and it is estimated that all reliefs will have been awarded within eight weeks.

52. 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.

Funding of reliefs and state aid

53. All reliefs are granted under Section 47 of the Local Government Finance Act 1988 (introduced by the Localism Act 2011).
54. The council will be fully reimbursed through a grant under section 31 of the Local Government Act 2003.
55. 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

56. 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
 - Retail discount – 1 April 2019 to 31 March 2021.
57. 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

58. Extensive modelling was carried out to profile the impact of revaluation across businesses in Southwark.
59. 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

60. The costs of these reliefs are met from a central government grant. The estimated amount of revaluation relief for the financial year 2019-20 is outlined in the table below:

Type	No. of properties	Value of relief	Total value
Revaluation relief	1,030	69% - 100% on	£800,000

Type	No. of properties	Value of relief	Total value
		bill increase	
Supporting small businesses relief	330	£600 cap on increases	£458,653
Retail discount	1,729	33% of net liability	£4.640,000
Total	3,089	-	£5,898,653

61. The MHCLG announced on the 4 December 2018 that they were conducting a New Burdens assessment on the implementation of retail relief. This assessment and the details of funding to local authorities had not been published at the time of writing this report.

Consultation

62. 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.
63. 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.
64. 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.
65. Since revaluation relief was first 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 for revaluation relief and that the discretionary relief policy more broadly should target small businesses and spreads available reliefs as widely as possible.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

66. 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 2019 - 20 year.
67. The decision is one which the cabinet member is able to make under Part 3 of the council's constitution.
68. The legislative basis for the 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.
69. 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.
70. 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

71. The Discretionary Rate Relief policy for revaluation relief, supporting small businesses relief and retail 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.
72. The Government will reimburse councils for the actual cost of relief for small businesses and retail properties, 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 £1.95m in 2018-19 to £0.80m in 2019-20. As the relief reduces, local businesses will experience increases in their rates.
73. The ability to allocate 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 the annual "Revaluation Relief" grant allocation in each year. It is noted that under the London Business Rates Pooling arrangement, the council and the pool bears the risk of 75% of any overspend of this grant in 2019-20.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Cabinet report 22 January 2019: Policy and Resources Strategy 2019-20	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	Discretionary Rate Relief policy for revaluation relief and retail discount 2019-20

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Dominic Cain, Director of Exchequer	
Version	Final	
Dated	20 March 2019	
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	20 March 2019	