

Cabinet

12 February 2013

Report of the Cabinet Member for Corporate Services

Discretionary & Mandatory Business Rate Relief and Discounts

Summary

1. The purpose of this paper is to provide Cabinet with details of the new power to grant business rate Discounts. It also sets out the changes to existing discretionary and mandatory rate relief when business rates are localised in April 2013. The report provides draft policies and procedures for dealing with both Business Rate Reliefs and Business Rate Discounts for Cabinet approval. .

Background

2. Current legislation provides business rate reliefs both mandatory and discretionary to specific types of business only. The main reliefs are:
 - Small Business Rate Relief (Rateable value below £12,000)
 - Charitable and Discretionary (Non for profit and charitable organisations)
 - Rural Rate Relief (Rural villages with populations below 3,000)
3. In respect of Charitable rate relief billing authorities by law are required to provide 80% mandatory rate relief (Which until 31st March 2013 is met in full by Central Government) from full business rate charges where the rate payer is a charity. This relief also applies to Community Amateur Sports Clubs. The Council can top up the mandatory relief

to 100% until 31st March 2013 and 25% of this top up will be met by central government. The council also has the power (non-mandatory) to provide up to 100% discretionary relief for other non-profit making organisations. In this case until 31st March 2013 75% of the cost is met by central government.

4. When business rates are localised on the 1st April 2013 there will be no change in the levels of Mandatory and Discretionary relief available however all costs will be shared with Central Government on a 50/50 basis. This simplifies the system of business rate reliefs removing the complex discretionary and mandatory top ups that existed in the old system. The Council does not initially incur any additional costs due to this change, as the assumed business rates starting point (which determines grants and assumed business rates retained) takes account of existing Mandatory reliefs. However, new Mandatory reliefs will result in effectively a reduction in the amount the Council can collect for that business and the Council will need to meet 50% of any cost.
5. In respect of all other 'for profit businesses' the only power available to council's was in respect of 'hardship' relief. A new power for authorities to grant business rate discounts (different from Mandatory and Discretionary relief) is provided through the Localism Bill. This is a completely new power separate to the existing business rate reliefs. The purpose of this change is to empower local authorities that until now had very little latitude to reduce the tax burden on non-domestic rate payers. Discounts are provided wholly at the council's expense as opposed to all other reliefs where the cost is shared on a 50/50 basis with Central Government.
6. The Government's objective for business rate discounts is to provide greater opportunity for local authorities to use innovative approaches in delivering a wide range of policy objectives through use of this new power. The rationale is that through lowering the tax burden on local business there will be greater cash flow leading to more investment, retained or higher employment which in turn will deliver improved economic performance.

7. The new power to grant discounts gives local authorities complete discretion allowing them to give no discounts at all through to the extreme of providing a 100% to all businesses. The key issue is that the amount of discount provided must be funded in totality by the council (EU State Aid rules apply) as opposed to discretionary reliefs where the funding is met on a 50/50 basis with Central Government.

Business Rate Discounts Policy

8. The new unfettered power to grant business rate discounts requires a policy to be developed that will provide a proper framework to manage any applications that may arise. The key aspects to be considered include:
 - The full cost of a Discount falls on the council whereas Discretionary Reliefs are shared on a 50/50 split with Central Government
 - Any administrative costs would fall upon the council
 - Reduced bills to business may potentially lead to further investment delivering increased employment
 - any policy and the new power may help in delivering policy objectives i.e. employment and economic growth
 - State aid rules apply

Policy Considerations

9. The development of a policy should be done within the existing framework of council procedures, including the budget process and governance arrangements. The type of criteria that may be considered when evaluating applicants would include healthy financial accounts, provides economic and financial benefits and is in line with the council plan and strategic objectives. Attached at Annex A of this report is a draft Policy that sets out a way that the council may wish to manage this new power.
10. The implementation of any policy that seeks to consider supporting local businesses through the use of discounts will create an administrative process. This will need to be as

streamlined as possible but will need to include an application process, due diligence in terms of looking at business accounts, monitoring and annual review. There are currently over 6,000 businesses in the city who could apply.

Mandatory and Discretionary Rate Relief

11. As set out at paragraph 4 from the 1st April 2013 all new mandatory and discretionary rate relief will be shared on a 50/50 basis with Central Government. The sharing of all reliefs on this basis means that where we were receiving only a 25% contribution from Central Government on the discretionary element in relation to mandatory awards this will increase to 50% and in the case of discretionary awards where the contribution was 75% this will fall to 50%. The net impact of this delivers a small reduction on the cost of existing discretionary awards as set out in table 1 below.

Table 1

Discretionary Relief	Current Scheme	New Scheme	Variation
Charities (Mandatory)	£100,643	£67,095	£33,548
Non For Profit Enterprise (Mandatory)	£16,895	£11,135	£5,760
Community and Amateur Sports Clubs (Discretionary)	£5,568	£11,263	-£5,695
Rural Rate Relief (Discretionary)	£11,350	£22,700	-£11,350
Total	£134,456	£112,193	£22,263

12. Movements and adjustments in Mandatory and Discretionary rate relief from 1st April 2013 will be dealt with through our statutory Business Rate Returns. The change in the business rates scheme means that the old practice of awarding discretionary payments from decentralised budgets requires review and is considered later in this report.
13. Table 2 below shows the level of discretionary relief budgets by directorate in 2012/13:

Table 2

<u>Directorate</u>	<u>Type of Recipient</u>	<u>Budget £K</u>
OCE	12 Orgs - CAB, CVS, York Childcare etc	13
ACE (Adults)	13 Orgs – Age Concern, Samaritans	8
ACE (Education)	11 Orgs – Voluntary Aided Church Schools)	40
CAN's (Neighbourhoods)	25 Orgs – Mainly Community Centres	15
CAN's (Leisure)	60 Orgs – Sports clubs, Theatre Arts Groups	43
CBSS (Rural Rate Relief)	28 Orgs – Mainly rural shops	9
Total		128

14. In most cases discretionary relief is awarded for a period of two years. If relief is to be removed the recipient organisation must be provided with 12 months notice on or before the 31st March prior to the year in which the relief will be removed.
15. Table 3 below shows the estimated value of existing mandatory reliefs:

Table 3

<u>Mandatory Relief 2013/14</u>	<u>Value £K</u>
Charities	7,964
Community Amateur Sports Clubs	150
Rural Shops, Post Offices, Public Houses & Petrol Stations	11
Total	8,125

Discretionary rate relief process

16. Various service areas across the council as set out a Table 2 currently administer discretionary rate relief. Awards are normally provided by these service areas on an annual or bi-annual basis to the recipients. As new mandatory reliefs are

made from 1st April 2013 the cost to the council will increase although the impact of the new mandatory reliefs will not directly affect directorate budgets but instead will be reflected in the calculation of the local/central share.

17. The key consideration post 1st April 2013 is that any new awards of mandatory or discretionary relief will create a higher level of cost to the council. As the Mandatory element (The minimum relief we must provide 80%) will be split on a 50/50 basis with Central Government whereas prior to 1st April 2013 the Government met the whole 80%. Most organisations in York eligible for mandatory relief are already in receipt. It is not therefore envisaged that there will be a high number of new Mandatory awards or that any that arise will have particularly large costs although any non-domestic further development or relocation of large charitable organisations for example York University could have a more material impact.
18. To ensure that the council is fully aware of the financial implications of any reliefs, and to ensure a consistent and coordinated approach to reliefs, it is proposed that the current budgets that are decentralised will be consolidated into one fund and that one single process is adopted. All current commitments will be maintained. The new process set out at Annex B for dealing with applications and renewals is approved.

Funding

19. The current process for managing discretionary rate relief has been devolved to the directorates for a number of years. This process has worked successfully and the application processes are well developed. The key change under the new scheme from 1st April 2013 is that the financial element of discretionary rate relief will be dealt with through the local/central share. The directorates will continue to receive and process the applications ensuring that the organisations requesting mandatory relief meet the qualifying criteria.
20. The move to the new funding arrangements supports the move to centralise the existing discretionary budgets as set out at paragraph 18. This centralisation will provide the initial

funding for existing and new awards of discretionary relief going forward. As the new system of localised business rates becomes established and if this continues to reflect York's economic growth consideration can be given to growing the funding. This could then be made available for both further discretionary rates reliefs and also to provide funding for the new power of business rate discounts which would look to support further growth of the commercial sector.

Options

21 There are no specific options associated with this report.

Analysis

22 Details of the implications associated with the recommendations of the paper are set out in Paragraph 2 – 20.

Council Plan 2011 - 15

23 The impact of the powers to provide business rate discounts contained within the Localism Act and discretionary rate relief in the Finance Act could impact directly or indirectly on several of the council's priorities that create the Council Plan 2011 - 15. This specifically includes:

- a) Protecting vulnerable people
- b) Building strong communities
- c) Creating jobs and growing the economy

Implications

- (a) **Financial** – The changes mean that any new Mandatory Awards, or Discretionary awards will now be met 50% by the Council. In respect of mandatory awards this could have a significant impact should a major organisation become entitled to Mandatory award. Existing Council funding will be used to fund existing Discretionary awards. There is currently no funding

allocated towards Business Rate Discounts, so any new Discounts would require careful consideration as part of the future budget process. In the medium term it may be possible to begin to create a fund from Business rate Discounts, enabling a more flexible approach, but this is dependant upon future business rate growth to create the financial capacity.

(b)**Human Resources (HR)** - There are no implications

(c)**Equalities** – There are no direct implications

(d)**Legal** - There are no implications

(e)**Crime and Disorder** - There are no implications

(f) **Information Technology (IT)** - There are no implications

(g)**Property** - There are no implications

Risk Management

- 24 The key risk associated with both business rate discounts and discretionary reliefs is a financial one. The risk will not be high and will be in the control of the authority providing proper policies and procedures are put in place and adhered to. The one risk that will remain outside of our control will be in respect of a high rateable value claim for mandatory relief which by law we will be required to provide.

Recommendations

- 25 Cabinet are asked to:
- a. approve the draft business rate discount policy attached at Annex A;

Reason

To provide a policy to deal with any requests for business rate discounts.

- b. approve the discretionary business rate relief process attached at Annex B.

Reason

To provide a policy and process to manage future requests for discretionary rate relief that allows for proper consideration of the financial impact of any award.

Contact Details

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Wards Affected: List wards or tick box to indicate all		All	✓

For further information please contact the author of the report

Background Papers

DCLG – Localism Bill: discretionary Business Rate discounts

Annexes

Annex A – Draft Business Rate Discount Policy

Annex B – Draft Discretionary Business Rate Process