

Report of the Head of Economic Growth

## **The economic impact of Business Rates for York and its city centre**

### **Summary**

1. Business Rates – or more correctly National Non-Domestic Rates (NNDR) – are frequently cited as a major obstacle to the profitability for city centre retail businesses. They are seen by many as an outdated property-based tax, with frequent calls for local authorities to provide relief from business rates for businesses.
2. Over recent years, national government funding for local authorities has changed significantly, with local business rates retention being introduced while the Revenue Support Grant has been withdrawn. Rates have become a significant element of City of York Council's income. For the 2019/20 revenue budget, £33m of retained business rates represents 26% of Council income.
3. Business rates are not well understood. They are set nationally and collected locally, leading to confusion in business owners' minds about who is responsible for the size of their bills. This in turn leads to frequent calls for Councils to reduce the burden of rates bills for businesses.
4. This paper sets out to provide:
  - a. A guide to NNDR and how the system for charging and collecting them works
  - b. Details of the contribution that retained business rates now make to Council budgets
  - c. The flexibilities that City of York Council has in terms of providing relief on those rates, our current policies and take-up levels
  - d. An analysis of the specific impacts for the city centre

## **Background**

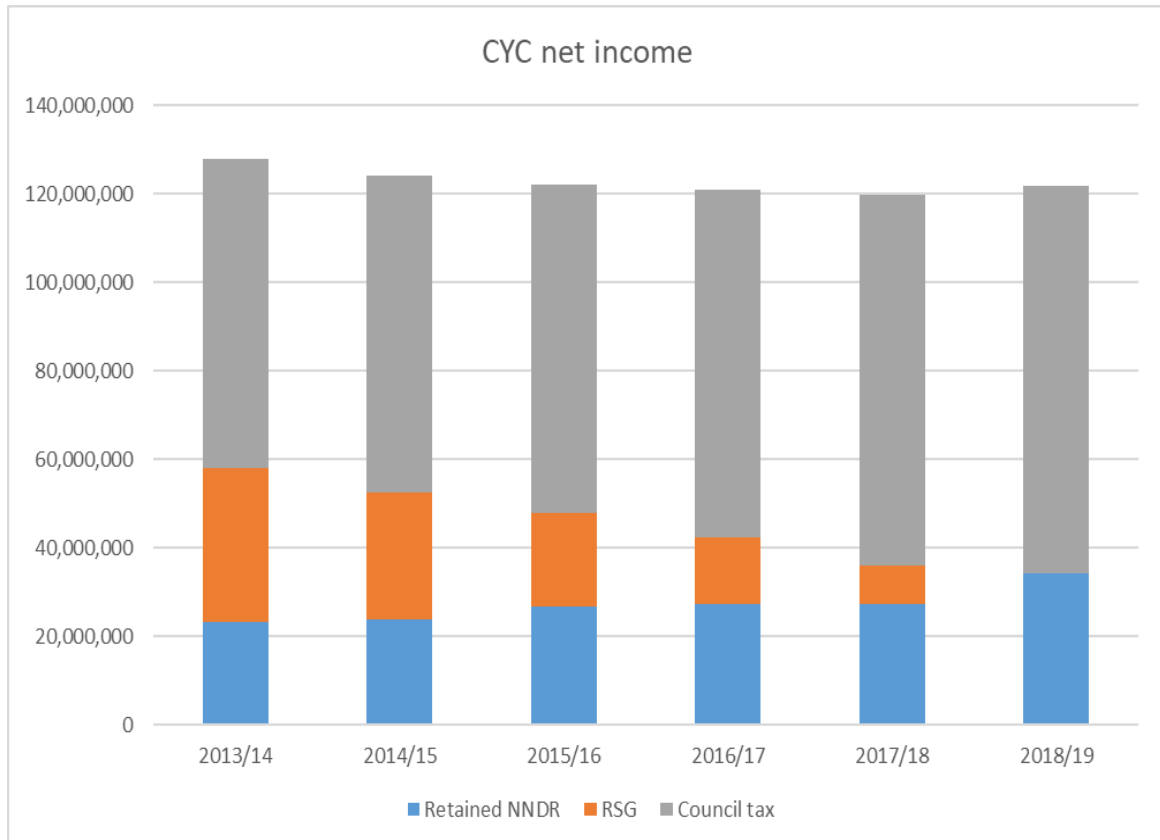
### How Business Rates work

5. Non-domestic properties, such as shops, offices, warehouses, car parks, advertising hoardings, and mobile phone masts, are assigned a rateable value by the Government's Valuation Office Agency. These values are the estimated annual rent payable for the property as of a fixed date, currently 1<sup>st</sup> April 2015. Businesses can appeal to the Valuation Office Agency (VOA) if they believe their rateable value has been incorrectly determined (see <https://www.gov.uk/correct-your-business-rates>).
6. As part of the annual Budget announcement, the Chancellor of the Exchequer publishes business rates multipliers for small and standard businesses. Small business multipliers apply to premises with a rateable value of less than £51,000, with the standard multiplier being used for premises above that value. The current multipliers for 2018/19 are 48.0p for small businesses and 49.3p as the standard figure.
7. The rates bill is calculated by multiplying together the rateable value and the appropriate multiplier. So a small business in premises with a rateable value of £20,000 would see an annual rates bill of  $20,000 \times 0.48 = £9,600$ . This bill, set nationally by the VOA and the Budget, is sent out and collected by the local authority.
8. There are numerous rates reliefs available either through national schemes or through local discretion. These are summarised below at paragraph 13. Where applicable, these discounts are applied prior to sending out annual rates bills in February or March. Rates are collected over 10 months for most businesses, and over 12 months for some large accounts.

### Business rates retention as a local government funding stream

9. Business rates have their origin as a method of taxation in the Poor Laws of 1572 and 1601, with tax on local property funding the support of the "aged, decayed, and impotent" poor in each parish. They are an ancient tax, originally collected to fund local social infrastructure in Tudor England.
10. There were two types of rates – those on domestic and non-domestic properties. Domestic rates remained in use as a form of local taxation until they were replaced with the Community Charge in 1988, and subsequently with Council Tax in 1993.

11. The Local Government Finance Act 2012 introduced changes in the funding arrangements for local authorities, with the phasing out of Revenue Support Grant, and its replacement with a new scheme to share NNDR receipts between central and local government.
12. For York, Revenue Support Grant (RSG) has now disappeared as an income stream, with retained rates now accounting for 28% of our revenue budget. The chart below shows how this has changed over the past 6 years since the introduction of the scheme.



### Rates relief

13. There are several ways in which companies and organisations occupying properties with a NNDR liability can receive relief on those rates. Some derive from national regulations – for example Charitable rates relief, and Small Business Rates Relief. Others are available at local discretion.
14. Because NNDR receipts are shared equally with central government, the costs of providing relief on existing properties are also shared in the same proportion with central government. So providing £100,000 of rates relief costs the Council £50,000, and this money is lost from the net income budget which supports our revenue expenditure.

15. Through national provisions, Charities and amateur sports clubs can apply for 80% rates relief on premises which are used for charitable purposes. This 80% can be increased to 100% at local discretion, and we have an application process in York which provides this relief on an annual basis through the Executive. Not-for-profit organisations which are not charities can also apply for discretionary relief on their rates liability.
16. In rural settlements with a population below 3,000, there is national mandatory relief for a range of key local businesses where they are the only such facility. This covers premises which are the only post office, petrol station, pub, general store or cold food shop and are below rateable value thresholds, and provides 50% relief. Discretionary relief can be applied for from local authorities to provide some or all of the remaining 50%.
17. For 2018/19, CYC Executive have agreed the following discretionary reliefs for charities, not-for-profit organisations, community amateur sports clubs and rural businesses:

<b>Category</b>	<b>DDR cost</b>	<b>CYC share</b>
Not-for-profit	£15,283	£7,642
Charities	£59,297	£29,649
CASCs	£8,619	£4,310
Rural discretionary	£51,001	£25,001
<b>Total cost</b>	<b>£134,200</b>	<b>£66,602</b>

18. Also through national arrangements, but of a temporary nature, small businesses are entitled to a sliding scale of relief on their NNDR liabilities so long as the rateable value of their premises is £15,000 or less and they occupy only one set of premises. For example, this ensures that the small business tenants at the EcoBusiness Centre on Clifton Moor have no rates liability.
19. The Government has announced a new relief scheme for retail properties that have a rateable value of less than £51,000. Under the scheme, eligible ratepayers will receive a discount of one third of their daily chargeable amount. This relief will take effect between financial years 2019/20 and 2020/21.
20. Again, through national regulations, empty properties are exempt from NNDR for the first 3 months of vacancy, but then attract the full rates liability. There are some exceptions and extensions:

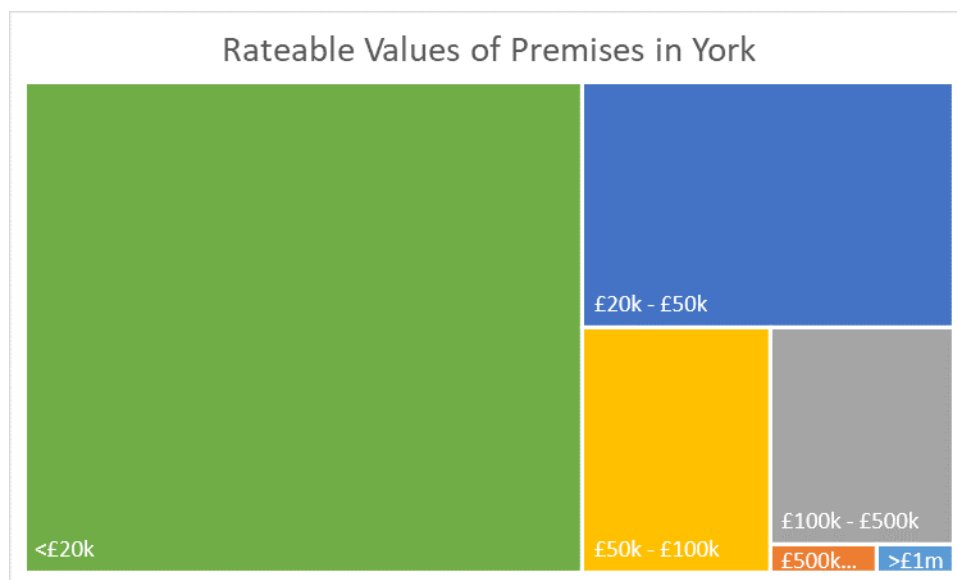
- a. Industrial buildings such as warehouses are exempt for a further 3 months
- b. Listed Buildings are fully exempt whilst empty
- c. Buildings belonging to charities and sports clubs are exempt whilst empty so long as the next use will be mostly charitable or mostly as a sports club
- d. Buildings with a rateable value of £2,900 or less are exempt whilst empty

Building owners can also seek exemption from rates for empty buildings which are not inhabitable by appealing to the Valuation Office Agency. For example, the former BHS store on Coney Street is currently exempt.

21. Hardship relief is available at the discretion of local councils in England, with the provisos that the occupier would be in hardship without that relief, and that providing relief is in the interests of local people.
22. Section 69 of The Localism Act 2011 introduced the provision for local authorities to allow relief, or a discount, from business rates from 1st April 2012 to any organisation it deemed appropriate, provided that it was in the interests of local council tax payers to do so. Prior to this Act the provision extended only to not for profit organisations.
23. In York, the Council has a Discretionary Business Rates Relief Policy, last amended in August 2014. This includes a set of rates reliefs covering 4 strategic ambitions:
  - a. Supporting young business in our economic growth sectors
  - b. Bringing empty Listed Buildings back into use
  - c. Significant business relocations to York
  - d. Business Development Districts
24. With the exception of the creation of a Business Development District in Acomb, these reliefs have not been widely used. A review of the policy, including consideration of the application and approval process, is planned for later this year.

### Business Rates in York

25. Details of NNDR charges, including the occupier, property information, and reliefs applied, are published on the York Open Data Platform at [www.yorkopendata.org](http://www.yorkopendata.org). There are over 5,800 rateable premises in York, with a combined net charge of over £104m per annum. The highest rateable value of £7m is for the University of York, although the University is a charity and receives 80% relief on its liability. The distribution by rateable value is summarised in the following diagram.



26. Looking at the total net charge paid, the largest contributors of NNDR in York are the supermarkets. The Tesco superstore at Clifton Moor has the highest net charge at £1.55m, and 7 of the top 10 charges are for superstores, including those at Vangarde. The top 3 non-retail rates bills are for Nestle (£1.4m), Defra (£930k) and CYC's West Offices (£730k).
27. Hotels are also significant rates payers, with The Grand having a net charge of £680k, The Principal paying £547k and the StayCity Aparthotel on Paragon Street contributing £343k. Within the city centre, the highest charges are paid by Marks and Spencer for their Parliament Street store (£527k), Primark (£366k) and Boots (£355k).
28. While the top 100 payers contribute a total of £37m – over a third of the total rates paid in York – the bottom 50% of rates bills contribute less than £3m in total. As the diagram above shows, well over half of all premises in York liable for rates have a rateable value below £20k. The occupiers of these buildings are predominantly eligible for small business rates relief, and the reality is that most businesses in York have a rates bill of less than £5,000
29. In York city centre, the rateable values are somewhat higher, due to the predominance of retail premises and the high cost of property. The

1,395 liable properties with a YO1 postcode contribute £32m of the total net charge for York of £104m.

30. Within the city centre, it is Parliament Street, Coney Street and the streets in between those which have the highest rateable values. Appendix 1 provides a street-by-street listing showing the highest and lowest RVs, the total for the street and the mean value. The importance of the core retail streets is clear from these figures.
31. Looking more specifically, in the Shambles, the average net rates charged are £7,840 per premises. For Goodramgate, where premises are typically larger but the location not so prestigious, the average rates are around £10,600 per property. In Coney Street, the average rates bill rises to £45,500.

### **Conclusions**

32. National Non Domestic Rates play an increasingly important role in providing income to City of York Council, representing 28% of the net revenue budget income in the current year.
33. The largest payers of rates in York are, as might be expected, the largest commercial premises, with superstores representing 5 of the 6 highest net charges. Outside of the city centre, many businesses face much more modest rates charges.
34. There are a wide range of rates reliefs available, some set nationally, others applied with local discretion. Over 2,000 small businesses are entirely exempt from rates, and the bottom 50% of rates payers pay an average of £1,000 per annum.
35. While review of the rates system is often mooted, and the impact on city centre businesses is highlighted as a key challenge for sustainability, the reality is that rates fall predominantly on large businesses. Typical small businesses see a rates bill in York of less than £5,000, while the supermarkets pay substantial sums. Tesco Stores Ltd alone has a total rates bill in York in excess of £3m.

### **Recommendation**

36. Members are asked to note and comment on the information provided in this report.

Reason: To inform Members of the economic impact of business rates in York.

## Contact Details

### Author:

Simon Brereton  
Head of Economic Growth  
Tel: 01904 552814

### Officer Responsible for the report:

Simon Brereton  
Head of Economic Growth  
Tel: 01904 552814

Report Approved  Date 11/03/2019

Wards Affected:

All

For further information please contact the author of the report

### Annexes:

**Annex A:** List of rateable values by street for YO1 postcodes

### Abbreviations

CYC – City of York Council  
NNDR – National Non-Domestic Rates  
RSG – Revenue Support Grant  
VOA – Valuation Office Agency