

Committee: Cabinet

Agenda Item

Date: 25 June 2014

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Title: Discretionary Rate Relief Policy

Portfolio Holder: Cllr Robert Chambers
Cllr Howard Rolfe

Key decision: **Yes**

Summary

1. This report is a companion item to the reports on the Strategic Initiatives Fund and Economic Development Strategy elsewhere on today's agenda.
2. The Council is responsible for collecting Business Rates from every non-domestic property in the district, subject to statutory exemptions and mandatory reliefs.
3. Discretionary rate relief is currently granted to eligible charities, community organisations and sports clubs, and qualifying businesses within small rural settlements, e.g. the only pub in a small village. The Council last formally reviewed its discretionary rate relief policy in the 1990s and a written copy no longer exists. Discretionary rate relief is currently operated on a custom and practice basis and there is a need to codify this in a written policy.
4. Prior to 1 April 2013, 100% of all business rates income was paid over to Central Government. From 1 April 2013, 50% is paid over to Central Government, 9% to Essex County Council, 1% to Essex Fire Authority and 40% retained by UDC. A complex array of adjustments operates to prevent unjust enrichment and/or unmanageable shocks. The effect of these adjustments is that UDC retains approx. 3.5% of the gross rates income.
5. The change from 1 April 2013 means that local authorities have a direct financial incentive to adopt policies which grow the local economy, and with it, the gross business rates income. This is in addition to the existing socio-economic benefits associated with promoting economic growth.
6. One key way to further this aim by adopting a discretionary rate relief policy, to provide additional discounts to eligible businesses, with the objective of encouraging sustainable economic growth. The Localism Act granted new powers to local authorities to adopt such policies. Relief granted under such powers are funded 100% by the district council.
7. A new discretionary rate relief policy has been devised with the objectives of:
 - Formalising the existing discretionary rate relief arrangements
 - Enhancing support for businesses operating in rural settlements
 - Providing incentives for small/medium sized businesses to set up within Uttlesford, or to expand their existing operations within Uttlesford.

Recommendations

8. The Cabinet is recommended to
 - a. approve the Discretionary Rate Relief policy as attached to this report, with an effective date of 1 July 2014
 - b. approve the funding of the policy through the use of the Strategic Initiatives and Economic Development reserves as set out in this report.

Financial Implications

9. There is provision within the base budget to fund discretionary rate relief to the value of £116,000 per annum.
10. The estimated cost of adopting the policy as set out is an annual cost of £166,000 and a one off cost of £200,000.
11. It is proposed that:
 - a. The gap between the annual budget (£116,000) and estimated cost (£166,000) of £50,000 be funded from the Economic Development Reserve for a maximum of two years - total cost £100,000. (The balance on the Economic Development Reserve currently stands at £220,000.)
 - b. The maximum one off cost of £200,000 be funded from the Strategic Initiatives Fund
 - c. The policy, and its funding, be reviewed before the end of the initial two year period, to ensure that ongoing financial commitments are affordable and sustainable. By this time it is anticipated that the localised business rates system will have settled down, enabling greater certainty of financial forecasting, and the expected growth in the system can be measured and used to inform future decisions about how best to target discretionary relief.

Background Papers

12. None.

Impact

Communication/Consultation	On the basis that new categories of relief are fully funded by UDC, no consultation process is required.
Community Safety	None.
Equalities	EQIA attached.
Health and Safety	None.
Human Rights/Legal Implications	State Aid limitations apply. Covered in the policy.
Sustainability	None.
Ward-specific impacts	None.
Workforce/Workplace	Assessment of rate relief applications.

Strategic Initiatives Fund

13. The £1 million Fund was established in the 2014/15 budget approved by Full Council, with the stated purpose of making one off investment in projects to be identified and approved by the Cabinet during the year.
14. The Fund was set up on the basis that examples of the projects that will be undertaken include:
 - Support for the local economy
 - Partnership working with voluntary sector organisations
 - Community initiatives and services in rural locations
 - “Spend to save” projects to make the Council more efficient and more resilient to funding changes in future years
 - Putting some Council services onto a more commercial footing.
15. The Administration has adopted principles to govern decisions about allocating monies from the Strategic Initiatives Fund to specific projects. These are:
 - The project demonstrably supports the Council’s corporate priorities, as set out in the Corporate Plan
 - The project fulfils at least one of the five suggested uses for the Fund, as set out above
 - EITHER the project results in tangible financial benefit to the Council, either by reducing future cost pressures, efficiency savings, or income generation AND/OR the project results in tangible lasting community benefit
 - The project does not give the Council any additional ongoing revenue budget commitments beyond the 2016/17 financial year.
16. The proposed policy is consistent with the aims and principles set out above.

Categories of Discretionary Rate Relief

Rural Rate Relief

17. A pre-LBR relief, the intention is to support rural communities (settlements with a population below 3,000) by giving rate relief to a sole general store, post office, food shop, public house or petrol station.
18. A sole general store, post office or food shop with a Rateable Value of less than £8,500, and a sole public house or petrol station with a Rateable Value of less than £12,500, is entitled to a mandatory 50% rate relief.
19. For some years UDC has allowed discretionary rate relief of an additional 50% to the businesses referred to in the previous paragraph. In addition, UDC has

granted discretionary relief of 100% for such businesses up to a Rateable Value of £16,500.

20. It is proposed to retain this discretionary relief as to withdraw it would place many rural businesses in financial difficulty and this would be counter to the Council's economic development objectives and corporate priorities regarding support for local communities.
21. An enhancement is proposed for this policy: there are several "sole" businesses in the district that do not qualify for any rate relief because their Rateable Value is above the qualifying threshold of £16,500. This creates inequity in that, for example, a sole pub in one village pays no business rates but a slightly larger pub in a neighbouring village pays £8,000 in business rates, or more. This contributed to the financial difficulties experienced by some pubs. The proposal is to grant, within rural settlements with a population of up to 3,000, discretionary rate relief to sole general stores, post offices, food shops, public houses and petrol stations with a Rateable Value exceeding £16,500, but to cap the relief at the £16,500 level. A qualifying business would therefore receive £8,000 in rate relief and have to pay rates on the remaining Rateable Value above £16,500.

Charitable Rate Relief

22. Registered Charities and Registered Community Amateur Sports Clubs are entitled to mandatory rate relief of 80%. UDC has granted the additional 20% in discretionary rate relief. Again it is propose to retain this discretionary element.
23. An enhancement is proposed which is to allow Community Interest Companies, who are not registered charities but have charitable aims and can demonstrate that their profits are wholly used for charitable purposes and/or to benefit the Uttlesford community, to be considered for up to 100% discretionary rate relief.

Hardship Rate Relief

24. Occasionally a business, through exceptional circumstances genuinely beyond their control, experience temporary financial hardship and require support with paying their rates. In these cases, a judgement is made that to insist on payment of rates could jeopardise the survival of the business and harm the local economy. It is important to retain a discretionary hardship element in the policy to support the rare and genuinely exceptional cases that arise.

Business Development Rate Relief

25. The most significant proposal in bringing the policy forward is to establish a new category of Business Development discretionary relief.

26. The objective is to provide incentives to small and medium sized businesses to set up within the district of Uttlesford or to expand their existing operations in Uttlesford. As well as growing the local economy and local employment, this would lead to increases in Rateable Value, which after the discretionary rate relief period, would lead to income growth for UDC.
27. As defined in [EC law](#), the definition of small and medium sized businesses is an individual firm of less than 250 employees and with a turnover below 50 million Euros or a Balance sheet total of below 43 million Euros.
28. The proposal is that a new SME business starting up, operating from new premises or premises that have been unoccupied for 12 months within Uttlesford, or existing SME businesses who enlarge their existing premises or occupy an additional premises which is new or have been unoccupied for 12 months, would receive 50% discretionary rate relief in the first year and 25% relief in the second year. Full rates would be payable from the third year onwards. Formerly unoccupied in this context includes the conversion of former agricultural buildings.
29. While the Government-sponsored Retail Rate Relief category is operating (see below), the Business Development Relief category would apply to non-retail businesses only.
30. Conditions would apply: demonstrating that a minimum three year lease / occupancy commitment exists; the business will endeavour to ensure that at least 50% of the company's employees are Uttlesford residents, and at least 25% of the business's supplies and services are sourced from Uttlesford businesses. If the business was to depart the premises before the end of the first three years, the Council would reserve the right to clawback the rate relief granted.
31. The operation of this policy would involve establishing checks and balances so that businesses do not move from one existing Uttlesford premises to another one just to gain rate relief. The intention is to facilitate sustainable, long term economic growth.
32. Gauging demand for Business Development relief is not easy and therefore it is difficult to put a reliable figure on what the cost might be. It is proposed to establish a fund of £200,000 and then monitor trends closely to identify at an early stage to what extent the policy is affordable and/or whether adjustments may be needed. This is a one off fund as the intention is not to make ongoing financial commitments beyond the 2016/17 financial year.

Retail Rate Relief

33. In the 2013 Autumn Statement, the Government announced that local authorities could establish discretionary rate relief for occupied retail premises with a Rateable Value of £50,000 or less, and relief for businesses moving into a retail premises that had been empty for a year or more. The relief applies for 2014/15 and 2015/16 and the cost is funded by Central Government. The Council decided to implement this relief at its meeting on 27 February. The policy includes this category of relief for completeness.

Flooding Rate Relief

34. In response to the severe wet weather during the Winter of 2013/14 the Government gave local authorities power to grant discretionary relief to businesses who were flooded between 1 December and 31 March. In February the Council resolved to implement this relief, which is funded by Central Government. Again this is included for completeness.

Small Business Rate Relief

35. For completeness the policy also refers to mandatory rate relief granted to small businesses. Those with a Rateable Value of up to £5,999 receive 50% relief (temporarily increased to 100% until 31 March 2015). Businesses with a Rateable Value of between £6,000 and £11,999 receive relief on a tapering scale, the amount of relief is temporarily doubled until 31 March 2015. Businesses with a Rateable Value of £12,000 to £17,999 get no relief but benefit from the Small Business Rates multiplier, which means they pay 47.1p for each £ of Rateable Value instead of the standard 48.2p.

Costing and funding the Policy

36. DCLG continue to make regulations on the localised business rates scheme, and there is the possibility that new regulations will be enacted and backdated. Based upon existing regulations, and advice from contacts with CIPFA and other local authorities, officers have reasonably and prudently assumed that:

- Categories of discretionary rate relief that pre-date the Localism Act and formation of the localised business rates scheme are apportioned between Central Government and local authorities using the established formula (50%; 9%; 1%; 40%). These are mainly to do with charity, sports and rural settlement support.
- Categories of discretionary rate relief established under Localism Act powers are funded 100% by the district council. These are to do with explicit objectives relating to economic development.

37. Based upon these assumptions, and an assessment of likely demand and knowledge of local business ratepayers, the following table is an estimate of the costs involved:

Discretionary Relief Category	New or Existing	TOTAL ESTIMATED COST (£000)	Assumed UDC share	Assumed UDC Share (£000)	Annual or one off
Rural Rate Relief	Existing – smaller sole rural businesses	86	40%	34	Annual
Rural Rate Relief	New enhancement – larger sole rural businesses	56	100%	56	Annual
Charitable Relief	Existing – charities and sports clubs	146	40%	58	Annual
Charitable Relief	New enhancement – Community Interest Companies	10	100%	10	Annual
Hardship Relief	Existing	20	40%	8	Annual
Sub total – Annual cost				166	
Business Development Relief	NEW SCHEME Up to two years relief for qualifying businesses setting up or expanding in Uttlesford	200	100%	200	One off
Retail Rate Relief	Existing Government funded scheme	298	0%	0	One off
Flooding Rate Relief	Existing Government funded scheme	12	0%	0	One off
Sub total – one off cost				200	
TOTAL COST (2 years)				532	

38. It is proposed to fund the two year costs of £532,000 by the following means:

2014/15 base budget	£116,000
2015/16 base budget	£116,000
Economic Development Reserve	£100,000
Strategic Initiatives Fund	£200,000
Total	£532,000

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
DCLG regulations are amended, affecting the amount of cost met by UDC	3 (Revisions to DCLG regulations are expected, which may or may not be backdated)	2 (there may be a favourable or adverse budgeting impact)	Prudent assumptions about the proportion of cost borne by UDC Monitor trends closely and adjust the policy if necessary
The policy does not achieve the desired economic development objectives	2 (a new and complex area for the Council without a track record to base judgements upon)	2 (reputational and financial impact of rate relief expenditure not demonstrably making a contribution towards economic development)	Economic Development Officer involvement Close monitoring of trends and reporting of outcomes to Cabinet

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.