POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT OR LGA POLICY

SYSTEMS DESIGN WORKING GROUP: RELIEFS

A PAPER DRAFTED BY THE LOCAL GOVERNMENT ASSOCIATION

Reliefs

1. This paper considers business rates reliefs within the context of the aims of the 100 per cent business rates retention system. It considers the arguments for further flexibility both from the point of view of administrative efficiency and from economic growth and employment.

2. The budgeted total cost of all reliefs in 2016-17 is £3.170bn. The table below summarises them; the annex (from NNDR1) shows them in full. It can be seen that 96% of all reliefs are mandatory and 91% accounted for by the top three mandatory reliefs; charitable relief, empty premises relief and small business rates relief (net of the small business supplement on larger businesses – 1.1 p in the £ in 2016-17)

Budgeted reliefs: 2016-17	**£m**	**%**
Charitable relief	1,575	50%
Empty premises relief	838	26%
Small business rate reliefs (net of small business supplement yield)	481	15%
Sum of top three mandatory reliefs	**2,893**	**91%**
Other mandatory	140	4%
All mandatory	**3,033**	**96%**
Discretionary	137	4%
Total	**3,170**	**100%**

Charitable relief

3. All charitable receive 80% mandatory rate relief by statute. The following arguments can be made

    i. This may not relate to local circumstances. Councils would welcome more flexibility in giving charitable relief; this would enable them to target reliefs better and grow the local economy;

    ii. It can distort the local market – in some cases many shops in a high street are charity shops;

    iii. All charities are treated the same irrespective of size and resources;

    iv. Some charities have been subject to abuse through being used as a device for business rates avoidance; this can be combined with empty property relief.

4. The baseline in the current system implies that there were £1.243bn reliefs in the system at baseline1. That means that since that time there has been an additional £332m reliefs granted – this will have been funded 50% locally and 50% centrally. In the 100% system if the same methodology was followed this would have all been funded locally.

5. Any new reliefs from the publically funded sector such as academies and health service trusts, if they were to be granted, would all fall on local government.

Do you agree with these arguments ? Are there any counter arguments from the perspective of local economic growth ?

Should state funded charities (such as academies and any health body found to be entitled to mandatory relief) be dealt with differently to other charities ?

Should adjustments be made for redistributions of resources between public sector organisations as a result of the application of mandatory reliefs?

How would more discretion enable avoidance to be targeted more effectively at a local level ?

If charitable relief was to be made discretionary would there be a case for a statutory minimum ? (e.g. 50%).

Currently billing authorities not preceptors take decisions on reliefs. Should this change in a more discretionary regime ? For example, should major preceptors be made statutory consultees ?

Is there a rationale behind supporting charities with a high street presence as opposed to those who do not. Is this the most effective way to achieve charitable aims?

Empty premises relief

6. All empty premises get a compulsory 3 months discount of 100%. Some industrial premises (e.g. warehouses) are exempt for a further 3 months. After this time most businesses are supposed to pay full business rates.

7. It can be argued that the rationale used in 2008 to justify increasing empty property rates to 100% was that it would encourage landlords to actively seek tenants for empty premises, and be more flexible about the rents they charged.

[1] That is £1.2161bn – the figure in the NNDR1 for 12-13 uprated by 2.2% - following the methodology used for the Estimated Business Rates Aggregate

The lower rents, it was argued, would encourage prospective tenants to expand and create new jobs. However the prevalence of so many loopholes has effectively nullified that economic argument and undermined the reasons for increasing the percentage in the first place.

8. One council estimates that that the overall cost of avoidance through contrived occupation (charities and empty rates) is about £8m a year. Given that their hardship spend in 2015/16 was in the region of £300k, an extra £4m available locally would help them provide help to many more struggling businesses and to provide more support to those wishing to expand and create new jobs.

9. The baseline of empty property relief is £878.8million2. Since that time the amount of empty property relief has gone up in 2013-14 and 2014-15 but is forecast to come down below baseline for 2016-17. Currently changes from the baseline are funded 50% local and 50% central. After 100% business rates retention all changes will impact on the local share.

10. The following arguments can be made:

    i. If empty property relief was made discretionary it would enable councils to target it better. For example a council might wish to give reliefs for a year to one sector or geographical area and only one or two months for another. For many local authorities, this could be a mechanism to attract inward investment and to support growth of indigenous businesses. For example, a business needing a period of time to install and commission plant and equipment (for either manufacturing or logistics) or to alter empty premises could benefit from an extended period of empty premises rate relief, as during the installation/commissioning period the business is not benefiting from positive cash flow associated with the outputs of their processes. This could be applicable to either businesses new to a location or an indigenous business relocating/expanding.
    ii. Authorities might prefer to fund incentives that encourage new or continued occupation such as a “new occupation” relief (which would also help landlords offering rent free periods) and hardship relief for businesses who need help through a tough trading period. The three month exemption reduces the incentive to bring properties back into use.
    iii. Giving councils discretion on empty premises relief would enable them to tackle avoidance more effectively; giving them tools to tackle, for example, short periods of occupation, which are frequently charitable, and which trigger another period of entitlement to empty property relief.
    iv. A further argument can be made for the exemption from empty rates for properties owned by companies that enter into Members’ Voluntary

[2] That is £859.9bn – the figure in the NNDR1 for 12-13 uprated by 2.2% - following the methodology used for the Estimated Business Rates Aggregate

Liquidation to be removed. Councils report that MVLs are frequently being used deliberately to avoid empty property rates. For the few cases that are genuine, billing authorities could use their local discount powers to avoid hardship.

v. It can be argued that some charities have been used as a vehicle for rate avoidance on empty properties because they are completely exempt from empty rate. This exemption could be removed and replaced with a local discretionary discount.

vi. In the short term more discretion could increase administrative costs. However in the long term reliefs would be likely to come down.

Do you agree with these arguments ? Are there any counter arguments from the perspective of local economic growth ?

How would more discretion enable avoidance to be targeted more effectively at a local level ? How could we avoid increased avoidance from other methods, for example voluntary liquidation ?

Even if the Government is not willing to concede full discretion, is there a case for giving councils discretion to increase the 42 days minimum period of occupation to qualify for a further period of empty property relief to 3 or 6 months ?

Should charities be brought into the empty property rates regime – with local authorities given discretion ?

Currently billing authorities not preceptors take decisions on reliefs. Should this change in a more discretionary regime ?

Small business rates relief

11. Small business rates relief is paid for through a supplement on larger businesses, through rates, and through any section 31 grants to cover government policy.

12. Many in local government recognise that small businesses growing and developing help to create jobs which in turn creates more jobs, with the effect of reducing Council Tax Support (and hence increasing Council Tax income). Therefore it should be recognised that there are other potential financial benefits and also benefits through job creation.

13. The Chancellor of the Exchequer announced at Budget 2016 that the amount of small business rate relief will be permanently raised. This implied a reduction in business rates income of £1.5 billion in total. 50% of this is a reduction to the central share, 50% will be compensated for by a section 31 grant to councils. If 100% business rates retention had existed the section 31 grant would have to have doubled in size. It could also be argued that such grants remove incentive to growth.

14. A further issue is that in large parts of the country, many high street shops have rateable values below £12,000. From 2017, below RV £12,000 an occupied multiple shop will pay 100%, a village shop 50%, a charity shop 20%, and a single ratepayer 0%. When empty, they are all liable for 100%, except the charity shop which would be exempt. The effect of this schemes is to create anomalies for small premises. There is an argument for rural rate relief to be combined into small business relief.

15. Some local authorities are concerned that whilst SBRR is often championed as a reward for entrepreneurial skill, many successful small and medium size enterprises pay no Business Rates at all – and thereby contribute little or nothing to the Local Authorities that provide services to help such businesses flourish.

16. A further issue concerns second homes being registered as businesses (even when they don’t operate as a business in practice), but then benefiting from the extension of mandatory NDR relief to small business, resulting in second home owners effectively getting their business rates paid for them, and paying no council tax either.

17. The additional section 31 reliefs have introduced volatility into the system even if they have been funded by section 31 grant. New reliefs increase the ratepayers expectations of reduced rates bills so temporary schemes increase risks around collectability once the relief is rescinded. It also becomes much more difficult to measure overall growth and get a feel for the quantum of business rates when new ‘funded’ reliefs are introduced as it is necessary to gross the liability back up for reductions related to the new reliefs to compare like with like.

Do you agree with these arguments ? Are there any counter arguments from the perspective of local economic growth ?

How are section 31 grants funded at the moment and would this change after full business rates retention ?

How should small business rate relief be dealt with under 100% business rates retention ?

Other reliefs

Transitional relief.

18. The purpose of transitional relief is to phase in any large increases in rate liability to some ratepayers as a result of a general revaluation. This is paid for by phasing in the reductions that benefit other ratepayers. This scheme results in a temporary national redistribution of rate income. Such a scheme has been operated at every revaluation since 1990.

19. This relief is different to the section 31 reliefs in that it tapers off over a fixed period after a revaluation, it can be a positive or a negative relief depending on what impact the revaluation has had on individual property RV's and it smooths the impact of the revaluation on the ratepayer. This relief is mainly self-funded within the quantum It is paid directly into/out of the billing authority's Collection Fund before splitting the collectable liability between the central and local shares.

20. In 2015/16 there are significant backdated adjustments to Transitional Relief which are arising as appeals are being settled and any original Transitional Relief is unravelled as part of the process of settling appeals.

21. This could be made to work with 100% retention. However, an alternative would be to put a national supplement on the multiplier and reimburse local authorities for transitional relief granted. There are two downsides to this. Firstly it increases the multiplier and secondly, the increase is greatest in the first year. However, the multiplier currently includes an amount to pay for losses on appeals. This results in over collection in the first year because appeals are not settled until later in the list. Therefore a top slice of rate income could be taken and used to reimburse authorities for both transitional relief and losses on appeals. As the cost of transition reduces, the cost of appeals will increase.

How has transitional relief operated since 2010 and how it is funded ?

How will it operate under 100% business rates retention ?

What happens to backdated transitional relief ?

How would the idea discussed in paragraph 20 work ? Would it target gainers and losers from revaluation in the same way as the current revaluation scheme ?

Discretionary relief

22. As can be seen from the table above discretionary reliefs represent only 4% of total relief, £137 million in 2016-17. Of that £46 million is additional relief for charities which was funded in the baseline and £25 million in respect of reliefs which are funded through section 31 grants. In 2016-17 these are long-term empty properties and 'new' empty properties. In 2014-15 and 2015-16 the sums were much larger because of the previous policy of retail relief which came to an end on 1st April 2016. (£284 million was forecast for this in 2015-16).

23. Arguably there is already discretion is this area and less action from Government will be required. However local government would argue that any guidelines or policy regarding such awards do not allow applicants to claim that any procedures have fettered the discretion of the Authority. For example a policy such as retail relief counted as discretionary although the government made it clear that they would fund it within their guidelines.

24. If local authorities had more flexibility to target reliefs, many local authorities would welcome the opportunity to offer, within the constraints of state aid, discretionary rates relief, as a possible incentive to new investment by inward investors or growing indigenous businesses. The ability to target such intervention would be particularly appealing, based on the criticality of the business to the local economy, e.g. in terms of the number and quality of jobs created or safeguarded, benefits to the local supply chain, etc.

25. This flexibility also allows local authorities which do not benefit from the presence of an Enterprise Zone or sites with assisted area status to still offer some form of incentive to business investment.

How are discretionary reliefs funded at the moment and how would this change after full business rates retention ?

How should section 31 grants for discretionary reliefs be funded under full business rates retention ?

Should any other discretionary reliefs change with 100% business rates retention ?

Setting the baseline for reliefs and changes once the scheme is in place.

26. Any of the suggestions in the paper might require a different treatment of the baseline for reliefs. One important issue is the applicability of the New Burdens Doctrine. For example it has been suggested that this ought to apply to any changes to mandatory reliefs for academies. A specific example of this is the Government's policy to convert schools to Academy status. When schools convert to Academy status they qualify for charitable relief and a mandatory 80% reduction in their business rates bill. In this scenario, local government loses income, and the new Academy is able to retain 80% of its business rates bill to redirect onto other priorities. This is simply an (unintended) redistribution of resources between sections of the public sector and could be easily adjusted for by the Government at no net cost.

27. Similar issues apply to any changes in the statutory framework after the new system is set up. Any changes imposed centrally without consideration of the impact on individual authorities risk unbalancing the approach to taking need into account in the baseline position, which is being considered by the Steering Group and the Responsibilities Working Group. A further issue which could be discussed is the involvement of local government in discussing any future central reliefs before they are announced.

Other suggestions

Are there any other options that should be considered for reforming the reliefs system in order to maximise economic growth potential and increased administrative efficiency?

Could a case be made for a local policy statement on discretionary reliefs, similar to council tax support ?

Accounting Treatment of Reliefs:

28. It will be necessary to consider accounting for section 31 grants in the Collection Fund after the move to 100% retention – this will assist in smoothing out any in year discrepancy between estimating grant associated with funded reliefs on the NNDR1 and finalising them on NNDR3. Currently any section 31 grant discrepancies need to be recognised in year in the general fund whereas if the section 31 grant was taken to the collection fund it could be rolled up in the year end surplus/deficit mechanism alongside the net rate liability variations. More direct support to targeted organisations would remove the necessity for complex accounting. If section 31 grants could be included in the collection fund that would make things much simpler as everything would be caught up in the one overall surplus/deficit. This would also help address timing differences between the section 31 grant being recognised in general fund and the cost of the relief not catching up until the subsequent surplus/deficit. This would require changes to regulations governing what is included in the collection fund as income or expenditure. It would also be necessary to check whether this is permitted by section 31 grant requirements.

What do you think of this proposal ? Would it lead to a less complicated system ?

Annex: Reliefs in the current system – from NNDR1 2016-17

Table 2 **: Cost of reliefs from national non-domestic rates : 2013-14 to 2016-17**

	Outturn		Forecast	£ million	Change between 2015-16 and 2016-17	
MANDATORY RELIEFS	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**£ million**	**%**
Small Business Rate Relief						
In respect of current year						
Relief provided in year	986	1,061	1,072	1,129		
of which: relief on existing properties where a 2nd property is occupied	-	-	-	2		
Additional yield generated from the small business supplement	447	543	633	648		
Net cost of small business rate relief in respect of current year	539	518	439	481		
Net cost of small business rate relief in respect of previous years	52	62	-	-		
Net cost of small business rate relief	**591**	**580**	**439**	**481**	**42**	**9.6%**
Other Mandatory reliefs						
In respect of current year						
Charitable occupation	1,391	1,476	1,511	1,575		
Community Amateur Sports Clubs (CASCs)	18	19	20	21		
Rural rate relief	6	6	6	6		
Partially occupied hereditaments	34	32	31	27		
Empty premises	988	947	846	838		
Total other mandatory relief in respect of current year	2,438	2,480	2,413	2,466		
Other mandatory relief in respect of previous years	14	-9	-	-		
Changes as a result of local estimates of growth or decline in mandatory relief	-	-	71	86		
Total cost of other mandatory relief	**2,452**	**2,471**	**2,485**	**2,552**	**68**	**2.7%**
Total cost of mandatory relief	**3,042**	**3,051**	**2,923**	**3,033**	**110**	**3.7%**
DISCRETIONARY RELIEFS						
In respect of current year						
Charitable occupation	43	44	44	46		
Non-profit making bodies	35	36	37	36		
Community Amateur Sports Clubs (CASCs)	1	1	1	1		
Rural rate relief	3	3	3	3		
Small rural businesses	2	2	2	2		
Other relief awarded under s47	8	12	15	19		
Hardship relief	3	3	-	-		
Total discretionary relief in respect of current year	95	100	101	106		
Discretionary relief in respect of previous years	1	2	-	-		
Discretionary reliefs funded through Section 31 grants						
"New Empty" properties	1	4	9	8		
"Long term empty" properties	-	4	11	10		
Retail relief	-	196	284 ‖	-		
Flooding relief	3	1	-	-		
In lieu of Transitional relief				7		
Total cost of discretionary reliefs funded through S31 grant	4	205	303 ‖	25		
Discretionary relief funded through S31 grants in respect of previous years	-	5	-	-		
Changes as a result of local estimates of growth or decline in discretionary relief	-	-	9	6		
Total cost of discretionary relief	**100**	**312**	**414** ‖	**137**		
TOTAL COST OF ALL RELIEFS	**3,142**	**3,363**	**3,337** ‖	**3,170**	**-167**	**-5.0%**

Source: Outturn data are taken from auditor confirmed NNDR3 forms, forecast data are taken from NNDR1 forms

Data for 2013-14 also include reliefs granted (or recouped for previous awards made in error) in respect of previous years