

BUSINESS RATES RETENTION SCHEME

Final Report and Recommendations

January 2014

DRAFT



MEMBERS OF THE SUB-GROUP



Councillor Nigel Betts



Councillor Brian Bishop



Councillor Peter Craske



Councillor Alan Deadman



Councillor Steven Hall



Councillor Colin Tandy

CHAIRMAN'S INTRODUCTION

Councillor Peter Craske
Chairman Business Rates Retention Scrutiny Sub Group

DRAFT

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1. INTRODUCTION

Prior to 1990 Business Rates were controlled by local authorities and were very similar to domestic rates. From 1990, Business Rates were pooled nationally and converted into a tax which was controlled by the Government with annual increases indexed to the Retail Price Index. The link between the amount raised locally from rates and the amount of resultant income to the local authority was removed.

This revised system of Revenue Support Grant distributed a grant to finance spending on local services and which comprised both Government grant and Business Rates. The distribution of this grant was based on a complicated set of formulae which aimed to take account of a Council's individual spending needs and allocate resources evenly across the country.

Business Rates is expected to raise £26.7bn in 2013/14. Concerns have been expressed that the current system of taxation is no longer considered fit for an era in which so much business is conducted digitally and online.

In his Autumn Statement, the Chancellor introduced a number of new measures:

- Business Rate instalments to be allowed over 12 months as opposed to the current 10;
- a commitment to clear 95% of outstanding valuation appeals by July 2015;
- the increase in Business Rates in 2014-15 to be capped at 2%, instead of the planned 3.2%.
- to continue the Small Business Rate Relief scheme in 2014-15, and allow businesses to take on an additional property without losing their eligibility to this relief.
- a temporary 50% relief on Business Rate bills for new occupants of retail premises that have been empty for a year or more at the point of occupation. The duration of the relief for the new occupant is 18 months.
- a £1,000 discount to retail and food and drink premises with a rateable value of £50,000 or below in 2014-15 and 2015-16. (the Autumn Statement refers to the High street and includes charities)

2. BUSINESS RATE RETENTION SCHEME

The introduction of the localisation of Business Rates in April 2013 is a new system that enables Councils to retain a share of the increases and decreases in their local Rates base. This is intended to incentivise Councils to pursue development in their areas and, therefore, build up the tax base. The system includes measures to restrict income to authorities where development can be more easily achieved, whilst distributing the excess resources to others, including Bexley.

Although the scheme incentivises growth, local control of the new system is limited. Critically, the multiplier (or rate in the pound) has been index linked to the retail price index, so cannot be set locally. As mentioned above, the inflation linking will not apply in 2014/15. In addition, valuation of properties for rating purposes remains under the control of the Valuation Office Agency (VOA), which is an agency of HM Revenue and Customs.

At the time of this report being prepared the Chancellor has indicated that the cost of the 1.2% reduction in the Business Rates uplift will not be borne by local authorities. This will need to be closely monitored through the annual local government finance settlement.

Nationally, more than 180,000 Business Rate appeals, worth £2bn, are waiting to be dealt with by the VOA as companies fight to cut the amount of tax they pay. The level of appeals has surged since the onset of the recession in the UK as companies struggle under the burden of Business Rates rising, while their sales and profits fall.

According to Commercial Valuers and Surveyors (CVS), the Business Rates specialist, at the current rate it will take two years for the VOA to hear all outstanding appeals. It has calculated that the average time to conclude an appeal is 18 months. The Chancellor's recent announcement makes a clear commitment to reduce the backlog.

3 i) BACKGROUND – BUSINESS RATES IN BEXLEY

In 2012/13, 5,426 annual bills were sent to businesses in Bexley with some £68.3m collected by 31 March 2013 from a collectable debit of £69.5m. This represented a collection rate of 98.2%, with an overall collection yield estimated to be in excess of 99%.

The statutory instalment scheme for payment of Business Rates requires that payments are made in ten monthly instalments. Instalments are due at the beginning of the month and if unpaid by the middle of the month, a reminder notice is issued. If a ratepayer brings their instalments up to date but subsequently falls behind again, a final notice is issued, the ratepayer loses their right to pay by instalments, and the whole amount for the year becomes due. If the full balance is not then paid, a Summons is issued by the Magistrates' Court, with costs of £165.

During 2012/13, there were 654 Summonses issued. At Court, the Council will ask for a Liability Order which gives the Council powers to secure the debt. These powers allow for the debt to be passed to a bailiff for collection, or for an Insolvency or Winding up Petition. At the end of March 2013 there were 146 cases with the bailiffs.

The administration, collection and recovery of Business Rates are contracted to Capita Business Services at £233,000 a year. Given there are

currently 5,453 properties, this gives an average cost of £43 (or 0.3% of the amount collected), although the size and scale of properties varies greatly from small shops to the Belvedere incinerator. There is also a small element of Council officer time in managing the contract, although this amounts to less than 0.5 FTE split between two officers in the Exchequer Services Client Unit.

There are risks connected to the new rates retention system. Prior to 1 April 2013, losses on collection were effectively met by central government. Under the new system losses are shared between the government (50%), the Greater London Authority (20%) and the Council (30%). This also means that the Council only receives 30% of any increase in the rate base. Furthermore, although the rates retention scheme contains a safety net to pay any council whose Business Rate receipts fall by more than 7.5% of their baseline funding, this still means that marginal reductions would be borne by the Council.

ii) BUSINESS RATE RELIEFS

There are a number of reliefs available to businesses as follows:

Small Businesses Rate Relief

This is a scheme to assist small, single property businesses. The smallest businesses currently do not have to pay any rates at all and others pay a reduced multiplier of 46.2p per pound of rateable value. At the current time, some 3,636 businesses in Bexley qualify for relief totalling £3.6m.

During 2011, an extensive publicity campaign was undertaken in Bexley which was successful in encouraging a number of businesses to apply for relief. A further campaign was undertaken in 2013 with press releases during September in the Bexley Times; the Chamber of Commerce publication 'Masthead; and the Bexleyheath Business Partnership magazine 'Town Talk.' The press release also appeared as a bulletin on BexWeb and was issued in the weekly business email from Economic Regeneration.

Last autumn, the Business Rates database was trawled for small businesses that were potentially eligible for Small Business Rate Relief. This exercise found 106 businesses that could potentially qualify for relief and application forms were sent to them. Of these, 34 have since qualified for relief; 51 were ineligible and 21 have not completed the application form, but are being contacted to encourage them to apply.

Up until 1 April 2013 the scheme was financed from the national pool of Business Rates with no cost impact on Bexley. Going forwards, Bexley will contribute 30% towards any relief given.

Mandatory Rate Relief

Organisations with charitable objectives irrespective of formal charity commission registration are entitled to relief from rates on any non-domestic property, which is wholly or mainly used for charitable purposes. Relief is given at 80% of the Business Rates bill. Bexley currently awards relief of £5.8m to 250 organisations.

The cost of Mandatory Relief granted before the new system came in was fully funded by central government. The cost of any relief granted since 1 April 2013 will be shared as per the sharing of Business Rate growth, namely:-

- Central government 50%;
- Bexley 30%;
- GLA 20%.

Transitional Relief

This is designed to reduce the impact of any significant changes in the rateable value, whether the change is up or down, and is automatically included when calculating the bill. Transitional Relief is self-financing and the limits on increases are funded by the limits placed on decreases. Businesses do not have to apply, and are granted the relief automatically.

Transitional Relief limits the percentage that the Business Rates bill can be increased or decreased each year following revaluation. Transitional Relief is applied each year until the bill reaches what the full bill would have been at the 2010 valuation. Currently there are 95 Business Rate accounts in transition.

The cost of Transitional Relief has no financial impact on Bexley.

4. ECONOMIC REGENERATION

At the heart of the retention scheme is the desire to 'reward' local authority areas for growth in new business floor space, however, a number of challenges exist. Many shopping areas face long term decline as consumers' preferences change, spending is squeezed and competition intensifies. Local high streets and neighbourhood parades all face various difficulties, especially outside the major destinations and tourist areas.

The new scheme could also be at odds with Bexley's Core Strategy policy, CS12, which states that the Council will ensure a sufficient and appropriately located provision of employment land to meet the borough's existing and future requirements.

Rates Retention would appear to have the potential to severely limit the borough's ability to achieve any net growth in business floor space for the foreseeable future. However, whilst Bexley retains a significant industrial sector and has the third largest concentration of commercial/industrial uses in London, the area is still experiencing the tail end of deindustrialisation and much of the available land is, therefore, not considered to be required.

Furthermore, a proportion of the remaining land release could also be taken up by other commercial activities such as retail and leisure, where appropriate. The development plan process would also look to leave the most desirable employment land unaffected, whilst encourage new economic growth in areas such as town centres which are more aligned to some of the emerging commercial needs.

In this context, Bexley will retain some of the largest cleared sites in the capital and is starting to attract different forms of commercial use such as food manufacture, distribution, construction and logistics, a recent example being the new Tesco dotcom facility in Belvedere.

The nature and location of business activity in Bexley will see some changes in coming years, and it is unclear at this stage how this will affect the Business Rate base, but shrinkage in some sectors can certainly be anticipated while others will grow, although the net effect is hard to predict.

5. KEY FINDINGS

The group received two presentations. The first was at their meeting in July 2013, from Peter Magee and Brenda Collins from Capita, who gave an overview of Business Rates Retention in Bexley. In September 2013, Jon Rowney gave a presentation on Business Rates Retention from London Council's perspective.

There were a number of significant issues revealed by the Scrutiny Sub Group review. This section deals with each of these, setting out proposals for how they might be taken forward.

(a) Mandatory Rate Relief

The localisation of Business Rates means that Bexley now bears 30% of the cost of awarding Mandatory Relief in the borough. It is, therefore, in the Council's interest to examine the level of relief being granted, and subsequently to investigate specific cases if their validity is thought to be in doubt. Officers are developing a methodology for this work and will complete this exercise.

(b) Small Business Rate Relief

Businesses that currently qualify are those:

- Ratepayers who only occupy one property in England with a rateable value less than £12,000, or ratepayers who only occupy one main property in England with a rateable value less than £12,000 and other additional properties - providing those additional properties have rateable values less than £2,600.
- Ratepayers who meet the criteria but their rateable value is above £12,000 and below £25,500 (London) will benefit from a reduced multiplier or poundage, currently 46.2p.

A letter was sent to the Secretary of State for Communities and Local Government, Eric Pickles, on 28 July 2013 to request extension of the Small Business Rate Relief scheme after April 2014. Acknowledgement of the Council's letter was received on 15 August to say the Government would consider the option to extend the scheme as part of its Autumn Statement in 2013. It was announced in the Autumn Statement that the scheme has been extended into 2014-15.

A number of promotions have previously been made to increase the awareness and take up of the Small Business Rate Relief scheme, and it is proposed that any promotional activity is routinely programmed from 2014 onwards.

(c) Valuation Appeals

Despite representations from local government, the new system of rates localisation has inherited all the outstanding appeals against valuations from previous years, in some

cases back to 2005. Appeals are determined by the Valuation Office Agency and the Council is unable to influence the rate at which these are determined. Over the last year, the number of outstanding appeals has increased from 491 to 551, with the gross rateable value under appeal increasing from £64.4m to £82.4m. During that time, 316 new appeals were lodged but only 256 resolved. 65% of resolved appeals were either withdrawn or dismissed, and of the 35% (90 cases) that did result in a reduction, the gross rateable value was reduced by 15% on average, amounting to £725,000 in total. There is no accurate way of assessing the financial impact of this reduction, but as a broad approximation it equates to £507,000.

Consideration has been given to paying for companies to analyse valuation records through software packages in order to more accurately predict rating appeals and potential valuation changes. Changes in the rate base that reduce the collectable debit; pose a risk to the Council's financial forecasting of the collectable amount. These risks may be due to ratepayer appeals that are successful in reducing the rateable value, or a charity eligible for mandatory relief occupying a large premises. Also if a new development commences trading but has not yet been brought into the valuation list, they cannot be billed. However, it is apparent that these products are in the early stages of development and Officers will re-examine these products later in 2014 following a period of appraisal.

(d) London Finance Commission

The Scrutiny Sub-Group received copies of the London Finance Commission's report and discussed its content at one of its meetings. The London Finance Commission has called for control mechanisms - valuation and poundage setting - to be transferred to London local government. The Commission made similar recommendations relating to Council Tax together with a range of further recommendations relating to taxation and investment.

The Sub-Group endorsed the report's recommendations and a draft letter to the Mayor of London conveying the sub-Group's response is attached as Appendix A. It is proposed that a copy of that letter, together with a copy of this report, is sent to the Secretary of State at the Department for Communities and Local Government.

6. RECOMMENDATIONS

There are two elements to the recommendations:

The first is recommendations that relate to the London Borough of Bexley and secondly those that make a wider point to Government or the Mayor of London.

Recommendations that relate to the London Borough of Bexley:

(a) Mandatory Rate Relief

- Undertake a comprehensive review in 2014 to check the financial accounts and aims of organisations in receipt of Mandatory Rate Relief to ensure rate relief is correctly applied. It is important that all taxpayers in Bexley, whether paying Business Rates or Council Tax are confident that all rate reliefs are only awarded to those who are genuinely entitled to them.

(b) Small Business Rate Relief

As the sub group has identified, the Council has successfully helped small businesses who should have been in receipt of rate relief to receive it.

- To continue publicity through local magazines and publications during 2014/15 as well as ensuring all new potentially eligible businesses are made aware of the relief by the Business Rate Department when they commence trading.

(c) Valuation Appeals

Councils have inherited all the outstanding appeals, which in some cases go back nearly a decade; they are unable to determine the rate at which they are dealt with. Moreover, the Government has given a commitment to clear 95% of outstanding appeals by July 2015.

- To continue to liaise with the Valuation Office Agency to ensure accurate information is provided on the valuation list.
- To consider commissioning a Rates Valuation company during 2014 to review the rating data. This will mitigate the risk of large valuation changes and assist with the Council's financial forecasting.
- To ask the Chancellor of the Exchequer for an update on progress in clearing the outstanding appeals every six months.

Recommendations that relate to wider Government or the London Mayor:

(a) Localise Business Rates

While the Government sees this system as intending to incentivise Councils to pursue development in their area, local control of the system is severely limited, both in terms of the rate in the pound being linked to the retail price index, and now, with the Government setting a cap on any increases.

- If the system is going to really incentivise local authorities, then local authorities need to have a bigger stake in the outcomes, therefore the Cabinet Member should write to the Chancellor of the Exchequer and Secretary of State for Communities and Local Government urging the Government to set out a timetable for devolving the decision making on Business Rates to local government.

(b) London Finance Commission

The London Finance Commission has called for control mechanisms to be transferred to London local government and the Sub Group supports that view.

- The Sub Group will write to the Mayor of London supporting the recommendations, and would request that the Cabinet Member do this also.

(c) Impact of the capping of Business Rate increases

After the last meeting of the Sub Group, the Chancellor announced a cap of 2% on Business Rate increases in the Autumn Statement.

- The Council should closely monitor through the local government finance settlement the impact of the capping of Business Rates.

Note: this change in the system was announced after the final meeting of the Sub Group and is therefore a Chairman's recommendation.

7. RESEARCH

The table below sets out the programme of research undertaken by the sub-group. Copies of all minutes and notes can be found in –
N:\Directorate of Corporate Services\Borough Secretary\Democratic Services\Scrutiny Committees\FINANCE AND CORPORATE SERVICES\2013-14\Sub Groups

Date	Activity	Topics for Consideration
November 2013	Small Business Rate Relief Promotion	A letter was sent to the Secretary of State for Communities and Local Government, Eric Pickles, dated 28th of July to request extension of Small Business Rate Relief after April 2014. Acknowledgement of letter received 15th of August to say that Government would consider option to extend as part of its Autumn Statement. Press releases were undertaken to promote Small Business Rate Relief in September 2013.
November 2014	Review of Mandatory Relief	Bexley Legal Services guidance on awarding Mandatory Rate Relief was reviewed to take into account in the Charities Act 2011.
November 2014	Impact of outstanding appeals	Liaison with Valuation Office Agency to receive information on valuation appeals.

8. ACKNOWLEDGMENTS

The Sub-Group wishes to thank those all those listed below who supported them during their work:

Councillors	
Nigel Betts	London Borough of Bexley
Brian Bishop	London Borough of Bexley
Peter Craske	London Borough of Bexley
Alan Deadman	London Borough of Bexley
Steven Hall	London Borough of Bexley
Colin Tandy	London Borough of Bexley
Council Officers	
Mike Ellsmore	London Borough of Bexley
John Peters	London Borough of Bexley
Mark Underwood	London Borough of Bexley
Gary Mitchell	London Borough of Bexley
External Witnesses	
Brenda Collins	Capita Business Services
Peter Magee	Capita Business Services
Jon Rowney	London Councils