Overview and Scrutiny Committee		
Title	Business Rates Update	
Contributor	Executive Director for Resources and Regeneration (Head of Corporate Resources)	Item 5
Class	Part 1 (open)	11 July 2017

1. Purpose

1.1 To provide the Overview and Scrutiny Committee with a general introduction to the Business Rates regime and proposed Government changes as they pertain to the London Borough of Lewisham. Appended to the report is a presentation to be delivered at the meeting by Guy Ware, Director of Finance for London Councils.

1.2 The report addresses the following areas:

- General description of Business Rates
- Technical Process
- Business Rates Reform
- Fair Funding process
- How will these changes affect Lewisham?
- Changes with 2017 valuation
- Lewisham's Key account risks.

2. Recommendations

2.1 The Overview and Scrutiny Committee is recommended to:

1. Note and ask questions on the content of this report.
2. Note and ask questions the presentation from London Councils attached at Appendix A.

3. General description of Business Rates

3.1 The Council's general budget is principally financed through Council Tax and the Settlement Funding Assessment (SFA). The SFA is made up of the Revenue Support Grant (RSG), and Business Rates Baseline Funding.

3.2 Business Rates (also known as National Non-Domestic Rates) are a tax on business properties. The tax is set by the government and collected by local authorities. The rates are the way that those who occupy non-domestic property contribute towards the cost of local services.

3.3 Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by Government to councils in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep half of business rate

income in their area by splitting business rate revenue into the 'local share' and the 'central share'.

3.4 The central share is redistributed to councils in the form of revenue support grant (RSG) (in the same way as the previous formula grant) and in other grants. The local share is kept by local government, but is also partly redistributed. It is redistributed through a mechanism of tariffs and top-ups. This redistribution ensures that areas do not lose out just because their local business rates are low compared to their assessed population and service needs.

3.5 Within the current system, councils keep up to 50% of growth in their business rate receipts arising from new or expanding businesses, until the next valuation when the system is reset. Local authorities that pay tariffs are also liable to pay a levy of up to half of this type of growth. The money raised from this levy is then used to fund a safety net system. This system protects those councils which see their annual business rate income fall by more than 7.5% below their determined 'baseline funding level'.

Technical Process

3.6 Business premises are regularly valued and the Business Rates are calculated by multiplying the assessed rateable value by a multiplier determined by government. How this is calculated is set out below

Valuations Office Agency (VOA) role

3.7 The VOA sets the rateable values of all business properties, usually every 5 years. This is known as revaluation. A list of rateable values are sent to local councils. The rateable values in the 2017 rating list, which came into force on 1 April 2017, are based on the rental value of properties on 1 April 2015.

3.8 Ratepayers are entitled to appeal against the ratebale value placed on their business purposes. These appeals are heard and decided by the VOA.

Central Government role

3.9 The Treasury is responsible for determining the business rate multiplier. The Government sets two multipliers: the Small Business Non-Domestic Rate Multiplier for small businesses and the Non-Domestic Rate Multiplier for other businesses.

3.10 Some properties are eligible for discounts on their business rates. This is called 'business rates relief'. There are various types of relief set by the Government e.g. small business rates relief, hardship relief, charitable rate relief and enterprise zones.

Business Rates Reform

3.11 In October 2015, the Government announced a major change to the way local authorities are funded by 2019/20. The changes are summarised as:

- 100 per cent business rates retention, by the sector as a whole, by 2019/20 (this is changing following the June 2017 general election and recent Queen's speech).
- Local authorities will keep 100% rates growth between valuations, i.e. no levy.
- Councils will be given new responsibilities to ensure reforms are 'fiscally neutral' and Revenue Support Grant (RSG) will be phased out.

- All councils will be able to reduce the multiplier to attract and incentive business growth in their area. Combined authority Mayors will also be able to increase multiplier with LEP agreement, to fund new infrastructure.
- A full review of the needs assessment methodology will take place.

3.12 The Government has announced that the move to 100% business rates retention will be fiscally neutral. To ensure this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match the additional funding from business rates.

Fair Funding process

3.13 As part of the 2016/17 Local Government Finance Settlement, the Government announced a Fair Funding Review of councils' relative needs and resources.

3.14 A needs assessment was last carried out in 2013/14. However, this was largely focussed on updating the data used in the assessment. The needs formulae have not been thoroughly reviewed for over a decade, which many councils feel is far too long. There is good reason to believe that the demographic pressures affecting particular areas, such as the growth in the elderly population, have affected different areas in different ways, as has the cost of providing services. It is therefore only right that the way relative need is assessed is reviewed. The Fair Funding Review will also establish what the needs assessment formula should be in a world where all local government spending is financed from locally raised resources.

3.15 For the services currently supported by the local government finance system, the outcomes of the Fair Funding Review will establish the funding baselines for the introduction of 100% business rates retention. The Fair Funding Review will consider the distribution of funding for new responsibilities on a case by case basis once these responsibilities are confirmed; they are likely to have bespoke distributions. A balance must be struck in the new system between providing a strong incentive for growth in local areas, and considering how funding should be distributed between local authorities.

How will these changes affect Lewisham?

3.16 <u>Overview of Lewisham 2016/17 Numbers</u>

Description	**Amount £000**
Amount Collected*	54,184
Appeals Risk	2,926
Amount Retained	15,515
GLA Share	10,426
Central Share	26,064
Top-up received	71,568
Business Rates budget baseline (retained and top-up)	87083

*this is before deductions relating to cost of collection, appeals

3.17 Breakdown of 2017/18 Charges by Value of Bill

Total Bill Charges	£000*	No of Properties
Over £1m	£9,759	5
£500k to £1m	£4,490	6
£100k to £499k	£14,407	73
£99k to £10k	£22,466	946
£9k to £1k	£9,533	2,002
Under £1k	£298	696
No charge	£0	2,386

*this is in relation to open accounts so if a business started partway through the year, the pro-rata charge is included

3.18 Overall impact of 2017 valuation in Lewisham

Rateable Value Changes

	2016/17 (2010 Valuation list)	2017/18 (2017 Valuation list)
Rateable Value	£140,205,537	£180,751,252
No of Properties	6,027	6,057

4. The impact of the 2017 valuation in Lewisham

4.1 Multiplier change

The changes in the business rates multipliers are as follows:

Year	2016/17	2017/18
Small Business Multiplier	48.4p	46.7p
Higher Multipliers	49.7p	48.0p

4.2 The fall in the multiplier is to ensure that the yield from business rates remains the same after the revaluation as before. On the face of it a fall of 1.7p, or about 3.5%, in the multiplier should be negated if the rise in the rateable value is of the same percentage. The increase in Lewisham's rateable value is greater than 3.5% so this change should favour the Council.

Changes to discounts/reliefs

4.3 In the Spring Budget the Chancellor announced the introduction of three new local relief schemes;

Supporting Small Businesses

4.4 The supporting small businesses relief will help those ratepayers who as a result of the change in their rateable value at the revaluation are losing some or all of their small business relief and are facing large increases in their bills.

4.5 To support these ratepayers, the supporting small businesses relief will ensure that the increase per year in the bills of these ratepayers is limited to the greater of:

- a cash value of £600 per year (£50 per month). This cash minimum increase ensures that those ratepayers currently paying nothing or very small amounts are brought into paying something.
- a percentage increase p.a. of 5%, 7.5%, 10%, 15% and 15% 2017/18 to 2021/22 all plus inflation.

New Discretionary Relief Scheme

4.6 The Government announced the design of a £300m discretionary fund over four years from 2017-18 to support those businesses that face the steepest increases in their business rates bills as a result of the 2017 revaluation. We are currently preparing a paper for consultation. The Government expects that billing authorities will deliver the scheme through the use of their discretionary relief powers under section 47 of the Local Government Finance Act 1988.

New Business Rate Relief Scheme for Pubs

4.7 The Government has also announced a relief scheme for pubs that have a rateable value of below £100,000. Under the scheme, eligible pubs will receive a £1000 discount on their bill.

Funding of the above reliefs

4.8 It has been confirmed that “New burdens funding” would be paid to cover the additional cost of administering these relief schemes. Legislation is yet to be issued to give further guidance.

Changes to the appeals process

4.9 The VOA’s Check Challenge and Appeal service launched on 1st April 2017. This scheme has been designed to get necessary changes made sooner, without there being a need for an appeal, saving this route for the more complex cases.

4.10 At present ratepayers who are unhappy with their business rates assessment may make a “proposal” to alter their assessment. Such a proposal need only include very limited details of what change the ratepayer proposes and is sent to the Valuation Office Agency. If the ratepayer and the VOA cannot reach agreement the matter is referred to the Valuation Tribunal for England (VTE) for determination. The Government is introducing an entirely new system based on the three stages of check, challenge and appeal.

4.11 The “check” stage will require the ratepayer to validate the facts on which the rating list entry is based and to provide any missing information. Until this stage is completed a ratepayer will not be able to make any formal challenge to their assessment. The “challenge” can be made only within four months of completion of the check stage and will require the ratepayer to provide grounds, reasons, and evidence as to why the assessment is wrong, and to set out the alternative valuation that is proposed. An “appeal” can only be made within four months of completion of the “challenge” stage and will be limited to considering only the VOA decision notice and will make that consideration only on the basis of the evidence presented at the check and challenge stages. This new process may discourage businesses from appealing especially small businesses.

Timetable

4.12 A summary timetable of the transformation process is shown below:

July 2016	Deadline for responses to the consultation on the approach to 100% business rates retention.
September 2016	A more technical consultation on specific workings of the reformed system.
January 2017	Legislation introduced to provide the framework for these reforms (Local Government Finance Bill 2017)
February 2017	Further consultation on the design of the reformed system
April 2017	Business rates retention pilots begin.
2019/20	The new system is implemented

Lewisham's Key account risks

4.13 There are two main key risks area that are worth noting:

Virgin Media

4.14 Lewisham's is currently the largest Virgin Media RV in the country – standing at £15.9m. All appeals seeking to merge the VM networks in the 2010 rating lists were withdrawn in May 2017. Lewisham is keeping a close eye on this should VM seek to move from the local list to the Central list. This would mean that VM would pay their rates to Central Government rather than the Council.

Health sector

4.15 The NHS has its application for charitable status still pending. Charities can apply for up to 80% relief on the proportion of the building being used for charitable purposes. Should their application be successful, Lewisham's liability up to 2016/17 would be approximately £9.0m, and for 2017/18 approximately £1.4m. Lewisham has already joined the combined legal action being coordinated by the LGA to challenge these applications.

5. Financial implications

5.1 This is a discussion paper for information only and therefore there are no direct financial implications arising from this report.

6. Legal implications

6.1 There are no direct legal implications arising from this report. As noted in the report, Business Rates are governed by the Local Government Finance Act 2012 and subsequent regulations.

For further information, contact David Austin on 0208 3149114