

**NORTH LINCOLNSHIRE COUNCIL**

**POLICY AND RESOURCES  
CABINET MEMBER**

**CHANGES TO BUSINESS RATES AND COUNCIL TAX  
IMPLICATIONS FOR RATE RELIEFS 2013/14**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To inform the cabinet member of changes to business rate and council tax arrangements from 1 April 2013 following government reforms. To consider the implications for current arrangements for awarding discretionary business rate relief.
- 1.2 Business rates have been partially relocalised. This exposes the council to changes in the business rate tax take.
- 1.3 Council tax benefit has been replaced by a Council Tax Support Scheme to be funded through the local government finance settlement. This transfers the risk of overspending to the council, but also gives the council a bonus if it can reduce the cost of support.
- 1.4 The council needs to review its approach to monitoring council tax and business rate income and to the award of discretionary business rate relief. The paper proposes arrangements for regular monitoring and that the current criteria for making discretionary awards are confirmed.

**2. BACKGROUND INFORMATION**

- 2.1 From April 2013 a new **business rate retention scheme** has been introduced by Government. Essentially this shares the proceeds of the tax on businesses 50/50 between local authorities and government. It freezes the current distribution of business rates income. This mechanism redistributes funding from areas with a relatively high taxbase to areas with a lower taxbase and greater social needs. This means that North Lincolnshire will be a tariff authority in the new arrangements. Authorities of this kind pay into a mechanism which provides additional funding for those councils needing a top-up. However a proportion of the future growth in the taxbase can be retained in the local area where that tax is generated.
- 2.2 Under the current business rates scheme there are a range of reliefs available:
  - Small business rates relief

- Relief to charities
- Relief to sports clubs
- Relief to certain categories of rural business
- Reliefs for empty property or partly occupied premises.

- 2.3 These have mandatory and discretionary elements. At present all the costs of awarding mandatory relief, 25% of top-up discretionary relief and 75% of most other discretionary reliefs are met by Government. The remaining cost is met by the council.
- 2.4 From 2013/14 the localisation of business rates means the way discretionary and mandatory relief is funded changes. Simply, the cost of both types of relief will now be shared 50/50 between government and the local authority.
- 2.5 When the government set-up the localisation scheme they reduced their estimates of the total amount of business rates that would be collected in England in 2013/14 to take account of mandatory and discretionary relief. This estimate was then used to determine the amount of Business Rates expected for England as a whole and then for each council. It means that, averaged across the country, the current level of discretionary and mandatory reliefs have been taken into account in the new scheme and have been built into the resource forecasts which underpin the 2013/14 budget. However, any change in the level of mandatory and discretionary relief after the scheme commences will also be shared equally between Central and Local Government.
- 2.6 The council has no discretion in awarding Mandatory relief. Any qualifying organisation that applies automatically receives a reduction of 80% of their business rate bill. The discretionary council scheme then considers applications for further discretionary relief, applying a points system based on pre-determined factors. The total points score for an organisation determines whether it receives discretionary relief. Discretionary relief can be an additional 20% top-up for charitable organisations already receiving 80% mandatory relief or up to 100% relief for other bodies.
- 2.7 The estimated level of mandatory relief for 2013/14 is £7m and the estimated level of discretionary relief is £179k (**see Appendix A**). Currently the council meets half the cost of discretionary relief (estimate £89k). Any variance in these assumed levels of relief will now impact on the surplus or deficit on the Collection Fund starting in 2013/14 which impacts on the funding available to support the council's budget in the following year.

### **Council Tax Support Scheme**

- 2.8 The Welfare Reform Act 2012 provided for the abolition of council tax benefit, paving the way for new localised council tax reduction schemes. This passed on a 10% reduction in funding from government. The council determined its scheme in November, taking advantage of one-year transitional funding from government. This caps the reduction to working age benefit at 8.5%.
- 2.9 However, it exposes the council to greater risk (and potential reward): cost savings if the claimant count falls with economic growth or the risk of additional costs if the

claimant count increases. The new Council Tax Support Scheme has the effect of reducing the tax liability of individual claimants and therefore the local taxbase, by discounting the tax liability where before the liability was met from a benefit awarded. Compensation of 90% of the expected cost was included in the local government finance settlement. Budget estimates have been made based on the current levels of claims and any variability will need to be tracked.

### **3. OPTIONS FOR CONSIDERATION**

#### **Business Rate Reliefs**

- 3.1 The new business rate retention scheme means that the council carries more of the risk of volatility in the business rate tax yield. This includes the effects of successful rating appeals, business closures and new business start-ups or expansion as well as sharing the cost of mandatory and discretionary reliefs with government.
- 3.2 Due to the change in the way these reliefs are accounted for the cost of reliefs will impact wholly on the Collection Fund, not directly on the in-year council budget. The current budget provision of £82k for discretionary reliefs will not be required if the estimate of business rate income for 2013/14 approved by cabinet in January is achieved. However, in reality actual awards for relief are likely to differ from the estimate. This budget can therefore be used as a contingency to cover volatility in both mandatory and discretionary relief.
- 3.3 The council could decide to review its policy for awarding discretionary reliefs to limit the potential for additional costs in the new regime. The policy was last reviewed in May 2012. However, a decision to change now would only take effect in the next financial year 2014/15 as notice must be given. A prudent approach would be to continue with current criteria and see how the reformed business rate system beds in.
- 3.4 In future the level of mandatory and discretionary reliefs awarded will both impact on the council's funding level and both will be tracked as part of standard budget monitoring. The same information can be reported on the same cycle to the Policy and Resources cabinet member. An estimate of the level of mandatory and discretionary reliefs for 2013/14 was included in the NNDR 1 return and these estimates provide a measure against which to compare the actual levels of relief granted. The levels of relief included in the NNDR1 return for 2013/14 are shown at **Appendix A (£7.2m)**.
- 3.5 Applying the same criteria for making discretionary awards in 2013/14 as in 2012/13 would mean that the same process for determining awards via report to cabinet member can continue, with no change to the treatment of the different categories of applicant.

#### **Council Tax Support**

- 3.6 We will need to monitor council tax receipts in greater detail than before. Previously the cost of awarding council tax benefit was met in full by government, subject to the council meeting standards of accuracy in the awards made. The new local arraignment means the council needs to contain the costs of awards within its own resources. The effect of granting more or less Local Council Tax Support compared to our initial

assumption is a reduction or increase in the council tax take, irrespective of other issues about the collectability of small amounts of debt from low income households.

- 3.7 It is therefore proposed that as part of normal council monitoring the key variables of number of claimants and level of support awarded is tracked through the year and, as with business rates, reported to the cabinet member at regular intervals. The budget estimate of the cost of awards is £13.5m, which after discounting the elements for Police and Fire, gives a council share of £11.3m. This assumes a similar number of claimants and claimant profile (pensioners and working age claimants) as in 2012/13. Changes in demography and the prosperity of the local economy will both have an impact on future entitlements. The council is allowed to review its scheme year on year to ensure affordability, but cannot change the scheme in-year. Therefore any additional costs have to be contained in-year.

#### **4. ANALYSIS OF OPTIONS**

- 4.1 The current reporting regime is no longer fit for purpose. Changes in local government finance arrangements introduce greater volatility into the council's funding streams, which consequently need to be kept under closer scrutiny. The proposals made in this paper provide the best option for assessing the financial impact on the council.

#### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 The level of reliefs awarded will directly affect council finances in the year after they are awarded.

#### **6 OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

- 6.1 It is proposed that no changes are made to the current regime of discretionary business reliefs (approved minute 2 of cabinet member Policy and Resources 25 May 2012). The criteria for mandatory relief are set by Government and continue as before. As there are no changes which affect claimants no impact assessment is required.

#### **7 OUTCOMES OF CONSULTATION AND CONFLICTS OF INTEREST DECLARED**

- 7.1 Government consulted extensively on the reforms to local government finance and the arrangements for retained business rates before passing into legislation in the Local Government Finance Act 2012. North Lincolnshire Council is bound by the new legislative requirements.

#### **8 RECOMMENDATIONS**

- 8.1 That the cabinet member notes the effects of changes to business rates and council tax legislation.
- 8.2 That revised reporting arrangements described in sections 3 of the report be approved and implemented from 2013/14.
- 8.3 That the current scoring criteria for awarding discretionary relief be confirmed.

- 8.4 That the budget for discretionary business rate reliefs be retained and used as a contingency against unexpected increases in the level of mandatory and discretionary relief.

DIRECTOR OF POLICY AND RESOURCES

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**Background Papers used in preparation of this report:**

Localising Support for Council Tax, Council, 27 November 2012

Setting the Non-domestic Rates Tax Yield for 2013-14, Cabinet, 29 January 2013.

Minute 2, Policy and Resources Cabinet Member, 25 May 2012

**Estimated Business Rate Reliefs 2013/14**

	<b>Total Cost</b>	<b>Cost to the Council</b>
	£	£
<b>MANDATORY RELIEFS</b>		
Cost of the small business rate relief	1,243,661	621,831
Cost of relief to charities	1,875,690	937,845
Cost of relief to Community Amateur Sports Clubs	33,337	16,669
Cost of relief for rural general stores, post offices, public houses, petrol filling stations and food shops	26,115	13,057
Cost of relief for partly occupied premises	600,000	300,000
Cost of relief for empty premises	3,223,402	1,611,701
 Total mandatory reliefs	 <b><u>7,002,206</u></b>	 <b><u>3,501,103</u></b>
 <b>DISCRETIONARY RELIEFS</b>		
Cost of relief to charities	70,234	35,117
Cost of relief to non-profit making bodies	77,037	38,518
Cost of relief to Community Amateur Sports Clubs	3,719	1,859
Cost of relief for rural general stores, post offices, public houses, petrol filling stations and food shops	22,182	11,091
Cost of relief to other rural businesses	5,397	2,699
Other Section 47 reliefs (Localism Act discounts)	0	0
 Total discretionary reliefs	 <b><u>178,568</u></b>	 <b><u>89,284</u></b>
 <b>Grand Total</b>	 <b><u>7,180,774</u></b>	 <b><u>3,590,387</u></b>