

Business Rates

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changes, risks and opportunities for Sheffield



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Overview: there are three major changes to the Business Rate system which you need to know about

1. Appeals and Business Rates for SMEs

In 2017, there are changes being implemented to the appeals system and the amount of Business Rates paid by SMEs

2. Revaluation

This process usually happens every 5 years and all business properties are given a new rateable value to take account of changes in the property market. The latest revaluation will be implemented in April 2017 based on valuations from 2015.

3. Business Rate localisation

In 2020, Government are '*Localising Business Rates*' so that the Business Rates paid by businesses locally are kept and invested locally.

Appeals and Rate Reliefs for SMEs



Changes to appeals and Rates for SMEs

Appeals System

- Government has recognised that there are huge challenges with the appeals system.
- Implementing “*Check, Challenge, Appeal*”

Changes to SME Rates and Rate Reliefs

- In Budget 2016, the then Chancellor doubled the 100% rate relief threshold for small businesses
- This means businesses in a single property with a value of £12k or less will pay no Business Rates
- Tapered relief on businesses valued up to £15k.
- Increase in threshold for standard rate multiplier to £51k

Business Rate Revaluation 2017



Revaluation

- Based on values at 1st April 2015
 - Valuation Office Agency (VOA) assess value of 1.8m business premises across the country
 - Properties are given a new rateable value
 - Government use multiplier (pence per pound) to calculate an estimate of the Business Rate you'll have to pay
- Unclear what the impact will be at present but:
 - Will definitely result in changes – *up and down*

Revaluation – what's happening?

- Draft local ratings list published on **30th September 2016**
 - DCLG made a **ready reckoner** available online so businesses can check what their new rates bill is likely to be
 - included initial estimated RV but also a provisional new multiplier and transitional relief if their estimated liability is significantly different to this year's
 - Queries and questions need to be directed to the VOA by 30th November
 - Revised draft RVs published (October 2016 – March 2017)
- In the longer term, Government planning more frequent revaluations (likely to be every 3 years) and more radical approaches to the methodology (eg. self assessment or formula approach)

Impact of revaluation on Sheffield – initial assessment

- Rateable value has increased by 0.5% to **£540m**
- Approx. Gross Business Rate payable in Sheffield is £220m (fall of around £40m since last revaluation)
 - But Sheffield will receive increase in ‘top-up’ grant to account for this
- Rate reliefs – impact of Govt’s 2016 Budget:
 - Full relief: ~12,000 properties that have an RV of less than £12,000
 - Tapered relief: ~1,000 properties (£12,000 to £15,000)
 - Small Business Rates Multiplier: ~4,000 properties (£12,000 to £51,000).

Impact of revaluation on Sheffield – initial assessment

Impact on businesses

- 8,000+ properties will see an increase;
- 5,000+ properties will see a decrease; and
- 4,500+ properties will see no change to their RV

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Impact on types of property

TOP INCREASES TO RV	TOP REDUCTIONS TO RV
<ul style="list-style-type: none">• Fibre Optic Networks	<ul style="list-style-type: none">• Offices
<ul style="list-style-type: none">• Universities	<ul style="list-style-type: none">• Works and Premises
<ul style="list-style-type: none">• Hospitals	<ul style="list-style-type: none">• Retail Warehouses
<ul style="list-style-type: none">• Restaurants	<ul style="list-style-type: none">• Leisure Centres
<ul style="list-style-type: none">• Public Houses	<ul style="list-style-type: none">• Superstores

Business Rate Localisation 2020



Business Rate localisation – from 2020

HOW IT WORKS - THE CURRENT SYSTEM

- Councils are mainly funded by:
 - Council Tax
 - Business Rates
 - General and specific grants from central government
- Business Rates are:
 - Paid by businesses locally
 - **50%** is retained locally (49% councils; 1% Fire & Rescue) to invest in supporting local economy and core services
 - **50%** is taken by central government and redistributed to councils across the country

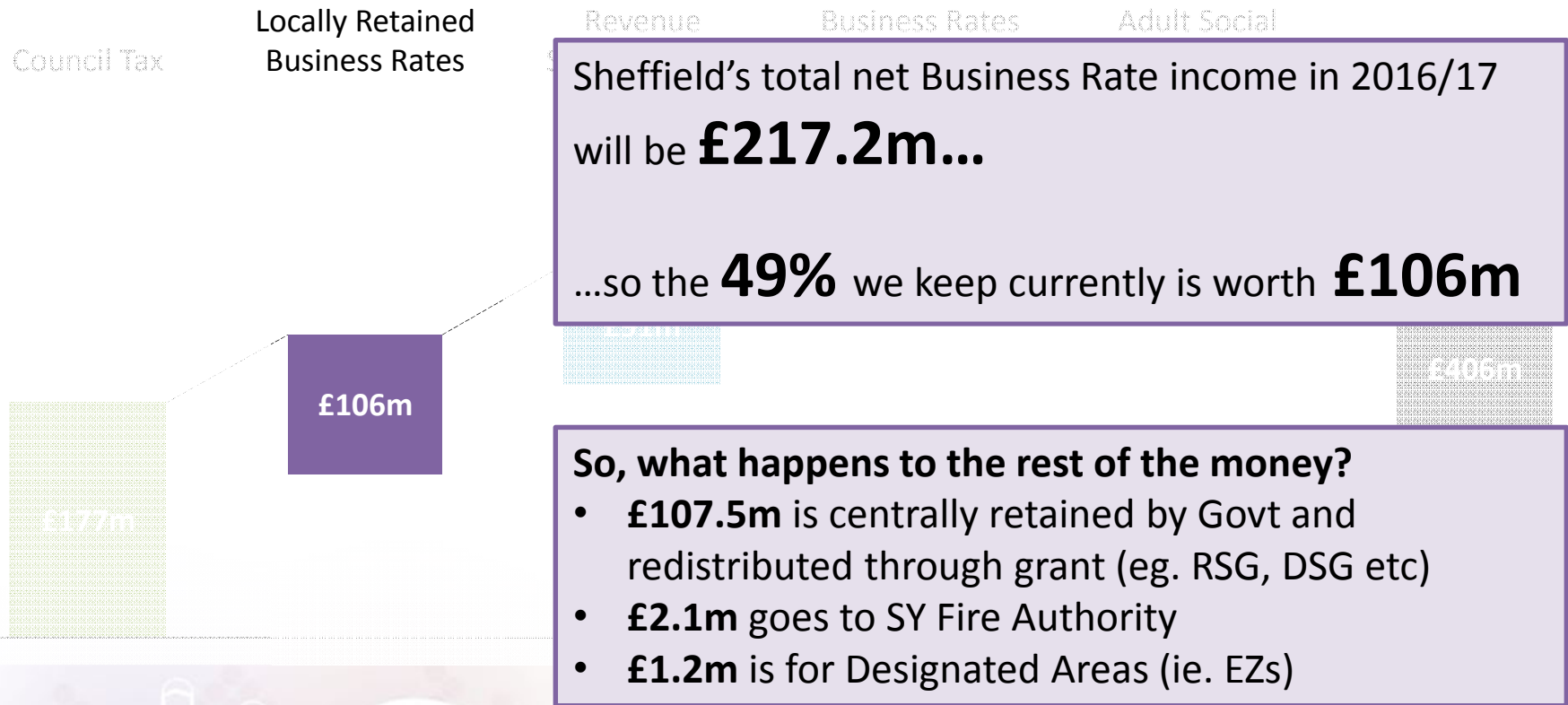
Business Rate localisation – from 2020

HOW IT WILL WORK – FROM 2020

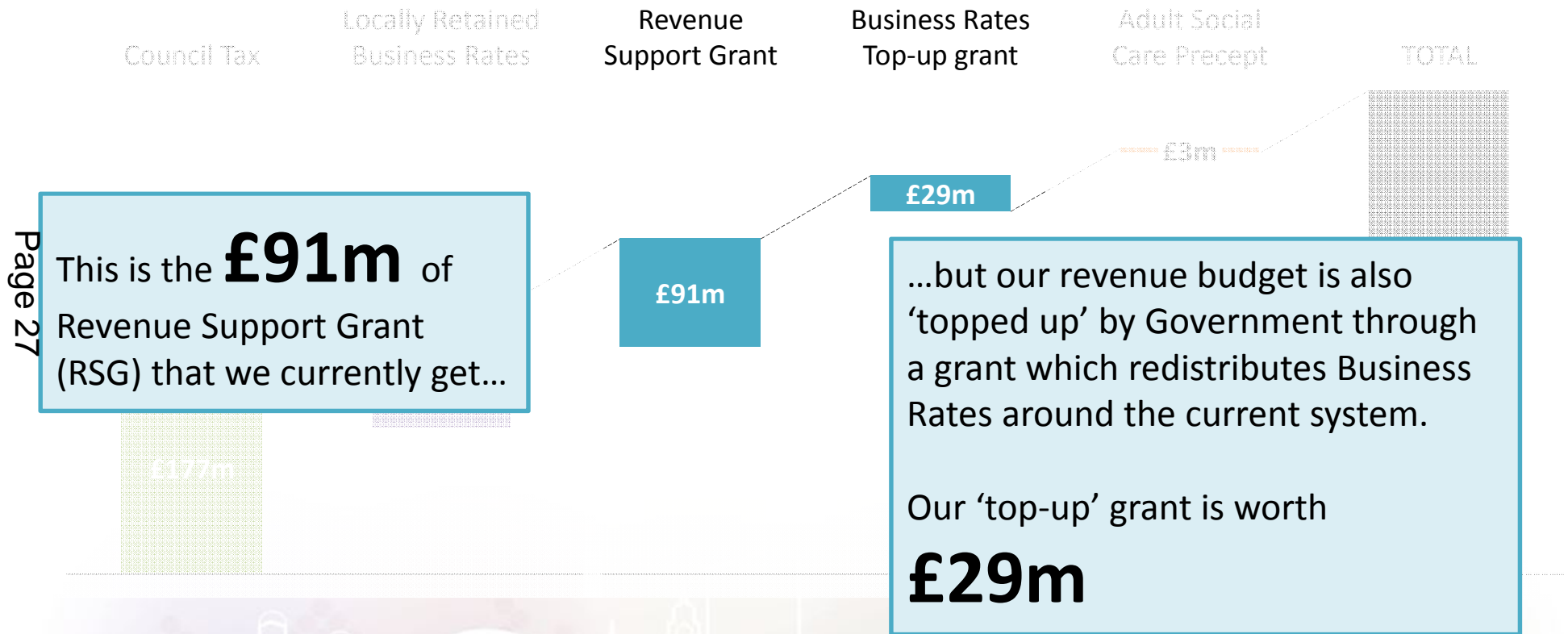
- Councils will be funded by:
 - Business Rates
 - Council Tax
 - Some specific grants but *no core grant*
- Key parts of the new Business Rate system:
 - Still be paid by businesses locally
 - 100% of BR paid will be kept and invested locally
 - Councils will be able to *reduce but not increase* the rate in the pound
 - City Regions with Mayors able to raise by 2p for infrastructure investment (with LEP/business backing)
 - Some redistribution based on a ‘needs assessment’ to ensure places have enough money to cover local needs
 - Places incentivised to grow business base

Business Rates are a key part of our budget but the council currently only keeps 49% of the Business Rates generated in Sheffield

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...and we receive a 'top-up'* from the Government's central share through our grants

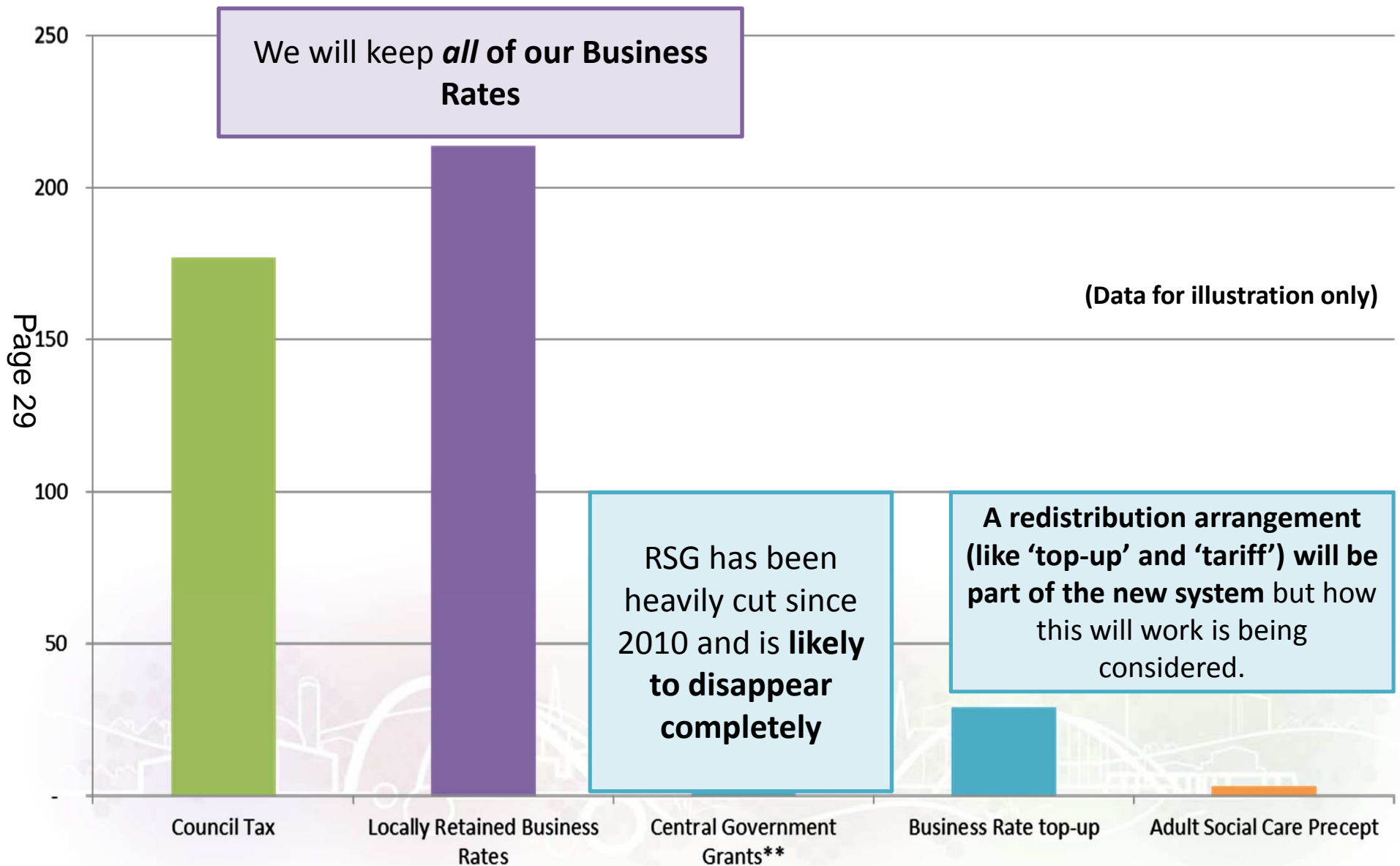


* Other councils are 'tariff' authorities – ie they pay more into the system as they generate large amounts of Business Rates. Government uses 'top-up' and 'tariffs' to redistribute money from places with higher Business Rate incomes to places with lower Business Rate incomes based on an assessment of their local needs.

The proposed full localisation of Business Rates has *fundamental* policy and finance implications for local government from 2020



From 2020: Government's plan is for local government to be less reliant on Whitehall for funding (£m)



What this will mean for businesses

- In terms of paying the bills, businesses shouldn't see any difference
- Rateable values of properties will still be set centrally
- Some further reforms likely – eg. to appeals
- But also:
 - More local control and flexibility to invest in the services and projects that matter to Sheffield
 - Less reliance for city on Government and Whitehall departments
 - Ability to invest for longer term
 - Potential to have more devolved power over key policy areas (eg. skills, training, employment support)

What this will mean for councils

- Sheffield will have some more control over the money we have to spend locally
 - Business Rates are in some ways more stable than the grant Government gives to councils
 - Less exposed to direct Government cuts
- Stronger incentive to invest in economic growth and the flexibility to invest in public services
 - Potential to enable long-term investment in growth and preventative services to reduce demand
- We are *unlikely* to have more money
 - Additional responsibilities for councils
 - ‘Fiscal neutrality’

Impact and longer term growth ambitions



What next?

- Government are piloting full localisation in Greater Manchester, Merseyside, West Midlands, West of England, Cornwall and London.
- Sheffield City Region have been discussing a pilot with Government and these talks are ongoing.
- Sheffield and the Core Cities are also working together to shape the new system and ensure that the interests of cities are reflected in the new system.
- Implications for wider fiscal reform

Government's composition has changed but is still committed to Business Rate localisation...

- No indication of a change of direction or pause from Government
- Full consultation on Business Rate localisation was held over the summer
- Piloting phase begins in April 2017.

Business Rate changes: implications for Sheffield and SCR

Opportunities

- Greater local control over own finances
- Less reliant on Government and in some ways, Business Rates are less volatile than Government grants
- Ability to invest for the longer term rather than short term budget cycles
- Places strongly incentivised to drive their local economies and invest in growth
- More direct relationship and accountability between local services and locally raised money
- Potential for more devolved powers

Risks

- Business Rate system is hugely inequitable and needs a strong redistribution mechanism
- Govt need to balance councils funding needs with incentives to grow local economies (risk & reward)
- Underlying problems with the existing system (eg. appeals backlog)
- Responsibility for Rates paid for major infrastructure (eg. digital networks; power stations)
- Additional responsibilities could burden councils with demand-driven budgets

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