ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy and Resources
DATE	09 March 2017
CHIEF EXECUTIVE	Angela Scott
TITLE OF REPORT	Non-Domestic Rates Relief Scheme
REPORT NUMBER	CG/17/038
CHECKLIST COMPLETED	No

1. PURPOSE OF REPORT

At the Council meeting on 22 February 2017 the Council considered a report on the General Fund Revenue Budget 2017/18 to 2021/22 and the minute states:

"Notes the announcement of the Scottish Government proposing additional business rates relief and instructs the Chief Executive to consider this announcement in relation to Appendix 9 of the report and report to Finance, Policy and Resources Committee on 9 March 2017."

The purpose of this report is to provide a further update on the position of the proposed rates relief scheme in Aberdeen as announced by the Scottish government on 21 February 2017.

2. RECOMMENDATION(S)

i) To note that the Council has not received any further detail on how the national rates scheme will work in practice and that the report therefore provides the latest information available;
ii) Notes the potential scheme that Aberdeenshire Council is proposing and is still subject to their approval process; and
iii) Otherwise notes the content of the report.

3. FINANCIAL IMPLICATIONS

The Scottish Government estimate that the one year proposed relief scheme will cost £7.5m to implement in Aberdeen. The scheme will be introduced by regulations under section 153(3) of the Local Government etc. (Scotland) Act 1994:

> *(1) For any financial year, the Secretary of State may by regulations prescribe that the amount payable as non-domestic rate in respect of any lands and heritages shall be such amount as may be determined in accordance with prescribed rules.*
>
> *(2) Rules prescribed under this section may be framed by reference to such factors as the Secretary of State thinks fit and such factors may, without prejudice to that generality, include the circumstances of persons by whom rates are payable.*

(3) Regulations under this section may make different provision in relation to different areas and different classes of lands and heritages and, without prejudice to that generality, may make different provision in relation to lands and heritages

(a) whose rateable value exceeds, and those whose rateable value does not exceed, a prescribed figure.

(b) whose energy efficiency and greenhouse gas emissions fall into different categories prescribed for the purpose of this paragraph in rules under subsection (1).

The Head of Finance awaits regulations for the scheme.

From an operational perspective there will be no cost to upgrade the NDR system (providing the upgrade is purely to deal with legislative changes) in order to facilitate the annual billing process. It is anticipated that this will be completed over the next week.

4. BACKGROUND

Business Rates, or Non-Domestic Rates (NDR), are an annual tax based on the value of the business, commercial and public sector property that they occupy. They are calculated using the Rateable Value (RV) of the property (set by regional assessors) multiplied by a poundage rate set by the Scottish Government - until 1 April 2017, this is 48.4% of a property's value. A revaluation by the Assessor has set the RV for a five-year period which will come into effect on April 1 2017.

The implications for businesses are that the new values are based on a 'tone date' of two years previously, 1 April 2015. The implications for businesses in Aberdeen and the north east of Scotland is that at that time, the effects of the then recent oil and gas downturn, had not yet fed through to the wider economy. Currently however, the indications are that the effects of the down turn is having an impact on local businesses, and with the increased rates liable from the proposed rateable values, there has been a concern that businesses would be materially affected in the context of the wider effects of the decreasing oil price.

As a result of the revaluation, on average, hotels were facing increases in their Gross Bills of 37%. This is significantly higher than other sectors.

Appendix 9 of the budget report to Council on 22 February 2017 examined a number of local relief schemes based on running different scenarios. Therefore this report should be read in conjunction with that report.

4.1 Potential Aberdeenshire Scheme

It should be noted that within a regional context Aberdeenshire Council propose to discuss a proposed local scheme as follows:

With regards to a proposed scheme, the following criteria is being considered in order to determine businesses eligible for relief, where relief is a reduction in the provisional increase in Business Rates. The following properties will not be included:

- *Properties with a Rateable Value (RV) = zero*
- *Properties where the RV has reduced or not increased*
- *Properties whose RV is less than £15,000 as they already qualify for 100% relief*
- *Properties whose RV is above £120,000*
- *Properties who are included in the national relief scheme: Hotels, Pubs, Restaurants, Cafes*
- *Properties who are included in the local relief scheme: offices*
- *Public Sector properties*
- *Properties likely to be exempt due to other reliefs e.g. Churches*
- *Properties relating to Renewable Energy due to existing reliefs*

The total funding they are making available for the scheme is £3 million made up of £2.8 million for direct reliefs and £0.2 million for future economic development. A verbal update on the cost of a similar scheme for Aberdeen will be given at the Committee meeting.

4.1 Scottish Government Relief Scheme

The Scottish government has therefore agreed to cap 2017-18 bill increases at 12.5% (real terms) through the creation of a new national relief scheme and to consolidate the support to the sector they will extend this to pubs, restaurants and cafes. The Scottish government estimate that this is to benefit around 500 properties in Aberdeen at a cost of around £3.7m

Office space in Aberdeen and Aberdeenshire is facing particular economic difficulty as a result of the downturn on the Oil & Gas sector. The revaluation would see increases in Gross Bills of 17% in Aberdeen city and 15% in Aberdeenshire compared to a national decrease of 10%. The Scottish government will introduce a new local relief scheme to cap 2017-18 bill increases to no more than 12.5%. The Scottish government estimates this will benefit 847 business properties in Aberdeen at a cost of around £3.8m.

For the renewables sector, where reductions to subsidies by the UK government put their continued development at risk, the Scottish government will offer a package of reliefs including:

- Rolling forward current rates relief up to 100% for qualifying community renewables and new build schemes, and lower the eligibility threshold for community schemes from 1 MW to 0.5 MW
- Cap rates bill increases at 12.5% for small-scale hydro schemes (up to 1 MW)
- Offer a new 50% relief for district heating schemes

This will benefit around 100 premises in Scotland. None of these is in Aberdeen.

The Scottish government estimate that the one year proposed relief scheme will cost £7.5m to implement in Aberdeen. This figure includes an adjustment for the small business bonus scheme, however the policy has not yet been finalised. Scottish Government officials are still working on modelling how these properties will be treated. The cost of the scheme could fall once this is accounted for. The full details to date released by the Scottish Government are attached as Appendix 1 of this report.

5.2 Comparison of Cost Estimates and Number of Businesses Affected

After the Scottish government announced details of the national relief scheme officers of the Council carried out quick calculations of the likely cost of the relief and the number of businesses affected. These initial estimates were a little lower for the hospitality sector and a little higher for the office sector compared with Scottish government estimates. Since then we have had an opportunity to compare our methodology with that of the Scottish government. Our previous cost estimates differed from those of the Scottish government. This is because:

- The Scottish government relief scheme costs were estimated on an earlier different version of draft assessor data with slightly different rateable values and properties.
- The Scottish government relief scheme cost estimates used slightly different categories to define hospitality. This meant that cost estimates from Aberdeen city officials were slightly lower for hospitality than would otherwise have been the case.
- The Scottish government relief scheme estimates uses a cap of 12.5% increases of current rates in real terms. This meant increasing current rates by 2% and capping this by 12.5%. Aberdeen City officers had originally capped increases to 2016 rates in nominal terms at 12.5%.
- Aberdeen city officials attempted to exclude businesses eligible for the small business bonus scheme in estimating the cost of the scheme. Scottish government estimates haven't done this.
- Aberdeen officials did not have data to accurately estimate the cost of renewables relief so did not provide a cost estimate of this.

Calculating estimates of the costs of the relief scheme on the same basis, officers of the Council broadly agree with these cost estimates and the number of businesses affected but note that these are subject to change with further modelling work of costs and coverage still planned.

5.3 Limitations of data used to produce cost estimates

In estimating the costs of this scheme, it has not been possible to identify and exclude all the properties of all other business premises that are eligible for relief under the current system (such as charities) nor all the properties of businesses that we would not want to have entitlement to a local rates relief scheme (such as public sector bodies). It is also not possible to identify where properties where more than one property has the same owner for the purposes of calculating rates liability.

When the final assessor data is made available, and officers upload that into the Council's Non-Domestic Rates system, we will be able to identify and exclude such businesses, which could lower the cost estimates of the relief scheme. Multiple ownership information would also then be available. Because the assessor dataset is based on postal address, we do not have precise information on the corresponding business name, and the industry sector they operate in. Within the 'offices' category in the data set, this may include a range of businesses operating in different industry sectors. With the final assessor data available, further analysis would allow officers to understand better the nature of companies in this broad category that would benefit from any scheme.

5.4 Operational issues

The Council requires a functional system release for the NDR system that meets legislative requirements prior to undertaking the annual billing exercise. Assuming that

the Scottish Government provide this clarity in the next week the Council's suppliers have indicated that we would have a functional system release by early April.

Once this is received the Council will need to test the new release as well as running in the 2017 data from the Assessor. The next step I the process is to check that the system calculates the 12.5% cap correctly for the right businesses.

Once this is complete officers will apply the uprate to 2,500 Small Business BS cases due to the change in the rateable value changes.

Given the above the earliest the Council will be undertaking the annual billing process will be mid-April with a target date of the week commencing 17 April 2017. While not ideal, especially given the amount of interest from businesses, this is the earliest (subject to Committee decision today) the Council will be in a position to send the annual bills out to businesses.

It should be noted that this target date is subject to Scottish Government releasing the relevant scheme details to suppliers and suppliers being able to implement this. The date is therefore subject to change should the external work streams not be completed timeously. Group Leaders will be advised on the billing date should this move.

It should be noted that the first instalment for Business Rates is not due until 21 May 2017 and the target billing date is now critical to allow businesses to make any necessary arrangements to meet this date.

5. **Improving Customer Experience –**
A relief scheme could help the cities key business stakeholders and their employees by ensuring they are not faced with unaffordable costs and closure. Further, by ensuring tat annual billing is completed by mid-April businesses are able to plan for making their monthly payments.

Improving Staff Experience –
The annual billing process is generally a busy period for staff. Having a finalised scheme properly tested and ready for billing will allow staff time to ensure the billing process is undertaken n a timeous and professional manner.

Improving our use of Resources –
In the longer term a relief scheme could ensure the viability of businesses generating greater NDR receipts for funding future council services. Early billing will also ensure that the Council's cash flow is not impacted by delays in businesses paying their NDR.

Corporate -
A relief scheme could help ensure a future flow of investment into the City contributing to the objectives of the Regional Economic Strategy.

Public –
The report is of interest to the public in terms of the potential economic benefits that a relief package could bring to the city by mitigating against some of the increases in costs that businesses face as a result of the large increases in NDR. The relief could mitigate against potential employment losses and a fall in future investment.

6. MANAGEMENT OF RISK

The following risks are identified from implementing a NDR relief scheme:

6.1 Data

The Council has had to rely on draft assessor data in assessing the local scheme and it should therefore be noted that any figures or financial impact will be reliant on this draft data and will therefore change. Further, until the data can be uploaded into the NDR System exact details on impact cannot be verified. The published Scottish government cost estimates themselves excludes any consideration of the small business bonus scheme which the Scottish government officials are still working on. The cost of the scheme could fall once this is accounted for.

6.2 Annual Billing

It is important that the Council is able to accurately bill businesses early in the financial year (targeting mid-April subject to external factors out with the Councils control) so that they are able to properly understand their NDR liability from a commercial perspective.

7. BACKGROUND PAPERS

General Fund Revenue Budget 2017/18 to 2021/22 and Non-Housing Capital Programme 2017/18 to 2021/22, Appendix 9 – Options for a Non-Domestic Rates Relief, Council Committee 22 February 2017
http://councilcommittees/documents/s66669/General%20Fund%20and%20NHCP.pdf

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APPENDIX 1

BUSINESS RATES – BACKGROUND **BIB 58543**

- **Over 70% of Scottish properties will pay the same or less in 2017-18 than they do currently.**
- **And, excluding large designated utilities, the average bill paid by ratepayers, including the reliefs announced today, is due to decline by 2%.**
- We are cutting the poundage by 3.7%, extending the Small Business Bonus Scheme, and focusing the Large Business Supplement only on the very biggest premises.
- An external review (led by Ken Barclay) is exploring how business rates can better reflect economic conditions and support growth. We will respond quickly when it concludes in the summer.
- All ratepayers have a right of appeal against the independent Assessors determination of rateable value. This is free to do in Scotland, unlike in England where charges are proposed from 2017-18.

Next Year's Poundage and Reliefs

The rates poundage will drop 3.7% from 48.4p for 2016-17 to 46.6p for 2017-18.

We are excluding 8,000 premises from the large business supplement, and limiting it to fewer than 10% of premises (around 20,000) by raising the threshold for the supplement from a rateable value of £35,000 to £51,000.

The help already available to businesses

A range of relief (discount) schemes are in operation, which reduce the total bill paid by a property. The major reliefs include the Small Business Bonus, Charities Relief, Unoccupied/partly unoccupied Property Relief, and Disabled Persons Relief.

- We are proposing reliefs worth over £600 million for 2017/18.
- More than half of rateable properties will pay nothing for 2017-18 due to the Small Business Bonus and other reliefs.
- The Small Business Bonus eligibility threshold for 100% rates relief will increase to a rateable value of £15,000, lifting 100,000 properties out of rates altogether.
- The Small Business Bonus will provide maximum support of £6,990 per business
- The Small Business Bonus has saved business over £1.2 billion cumulatively since 2008.
- Properties with Rateable Value up to £18,000 can still get 25% relief, as is the case currently [so long as ratepayer's cumulative rateable value is no more than £35k].

	Scotland		**England**	
	2016-17	**2017-18**	**2016-17**	**2017-18**
poundage (pence)	48.4	46.6	48.4	46.6
large business supplement (pence)	2.6	2.6	1.3	1.3
LBS threshold (rateable value)	£35k	£51k	£18k / £25.5k London	£51k
small business 100% relief – upper threshold (rateable value)	£10k	£15k	£6k	£12k
small business <100% relief (rateable value)	50% to £12k 25% to £18k	25% up to £18k	tapers to 0% at £12k	…0% at £15k

Additional help now being made available – bringing total relief for 2017-18 to £660m

Hotels & Pubs

As a result of the revaluation, on average, hotels were facing increases in their Gross Bills of 37%. This is significantly higher than other sectors.

We will therefore cap 2017-18 bill increases at 12.5% (real terms) through the creation of a new national relief scheme and to consolidate the support to the sector we will extend this to pubs, restaurants and cafes. This will benefit around 8,500 properties and bring the average gross bill increase for hotels down to 12% and for pubs down to 2%.

The Barclay Review of Business Rates has confirmed that the review group has been made aware of the issues raised by the hospitality trade and are actively engaging with the sector. The Scottish Government will consider the group's report carefully and act quickly to implement it where it can.

Aberdeen & Aberdeenshire Office Space

Office space in Aberdeen and Aberdeenshire is facing particular economic difficulty as a result of the downturn on the Oil & Gas sector. The revaluation would see increases in Gross Bills of 17% in Aberdeen city and 15% in Aberdeenshire compared to a national decrease of 10%

We will introduce a new local relief scheme to cap 2017-18 bill increases to no more than 12.5%. This will benefit around 1,000 premises.

Renewables

For the renewables sector, where the cuts to subsidies by the UK government puts their continued development at risk, we will offer a package of reliefs including:

- Rolling forward current rates relief up to 100% for qualifying community renewables and new build schemes, and lower the eligibility threshold for community schemes from 1 MW to 0.5 MW
- Cap rates bill increases at 12.5% for small-scale hydro schemes (up to 1 MW)
- Offer a new 50% relief for district heating schemes

This will benefit around 100 premises.

What this means for properties in different parts of the country

The following table shows the number of rateable properties who will either see a (cash terms) reduction in their bill or see no change in their bill as a result of the Business Rates revaluation. This modelling is known to underestimate these properties because it does not take account of all the support through relief schemes provided by the Scottish Government and by Local Authorities in Scotland.

Local authority	No of rateable properties	*% with decrease or no change in bill**
Aberdeen City	8,603	*38%*
Aberdeenshire	11,695	*60%*
Angus	4,703	*78%*
Argyll & Bute	8,311	*67%*
Clackmannanshire	1,532	*63%*
Dumfries & Galloway	9,013	*71%*
Dundee City	5,722	*80%*
East Ayrshire	3,876	*70%*
East Dunbartonshire	2,345	*74%*
East Lothian	3,323	*63%*
East Renfrewshire	1,736	*78%*
Edinburgh, City of	19,411	*62%*
Eilean Siar	2,429	*66%*
Falkirk	4,809	*70%*
Fife	13,299	*77%*
Glasgow City	25,582	*73%*
Highland	17,131	*68%*
Inverclyde	2,317	*78%*
Midlothian	2,856	*60%*
Moray	4,540	*57%*
North Ayrshire	5,009	*72%*
North Lanarkshire	9,855	*79%*
Orkney Islands	2,130	*74%*
Perth & Kinross	8,273	*72%*
Renfrewshire	6,343	*73%*
Scottish Borders	7,247	*61%*
Shetland Islands	1,986	*69%*
South Ayrshire	4,679	*69%*
South Lanarkshire	9,764	*75%*
Stirling	4,882	*71%*
West Dunbartonshire	2,855	*74%*
West Lothian	5,673	*68%*
*Designated utilities **	*29*	*45%*
Scotland	**221,958**	***69%***

** These percentages are a known underestimate. In the first instance Gross Bill changes are analysed. Some basic property by property modelling of SBBS is then applied. In reality, many more businesses will benefit from some form of SBBS as well as the other reliefs provided by the Scottish Government.*

What the new reliefs will mean for business properties by local authority and sector

NEW RELIEF ANALYSIS	Hotels, Pubs, Restaurants, Cafes		Offices		Total	
Local Authority	**Number Benefitting**	**Relief (£m)**	**Number Benefitting**	**Relief (£m)**	**Number Benefitting**	**Relief (£m)**
Aberdeen City	500	3.7	847	3.8	1,347	7.5
Aberdeenshire	311	1.2	303	1.1	614	2.3
Angus	97	0.3		0.0	97	0.3
Argyll & Bute	722	1.4		0.0	722	1.4
Clackmannanshire	39	0.2		0.0	39	0.2
Dumfries & Galloway	289	0.5		0.0	289	0.5
Dundee City	104	0.5		0.0	104	0.5
East Ayrshire	59	0.2		0.0	59	0.2
East Dunbartonshire	22	0.1		0.0	22	0.1
East Lothian	159	0.6		0.0	159	0.6
East Renfrewshire	11	0.1		0.0	11	0.1
Edinburgh, City of	1,551	11.7		0.0	1,551	11.7
Eilean Siar	110	0.1		0.0	110	0.1
Falkirk	101	0.7		0.0	101	0.7
Fife	330	1.3		0.0	330	1.3
Glasgow City	563	3.3		0.0	563	3.3
Highland	1,214	2.9		0.0	1,214	2.9
Inverclyde	31	0.1		0.0	31	0.1
Midlothian	61	0.3		0.0	61	0.3
Moray	179	0.5		0.0	179	0.5
North Ayrshire	175	0.5		0.0	175	0.5
North Lanarkshire	48	0.2		0.0	48	0.2
Orkney Islands	75	0.2		0.0	75	0.2
Perth & Kinross	448	1.3		0.0	448	1.3
Renfrewshire	73	1.2		0.0	73	1.2
Scottish Borders	266	0.4		0.0	266	0.4
Shetland Islands	68	0.5		0.0	68	0.5
South Ayrshire	208	0.8		0.0	208	0.8
South Lanarkshire	88	0.3		0.0	88	0.3
Stirling	317	1.6		0.0	317	1.6
West Dunbartonshire	44	0.2		0.0	44	0.2
West Lothian	117	0.4		0.0	117	0.4
Designated Utilities		0.0		*0.0*	0	*0.0*
Scotland	**8,380**	**37.1**	**1,150**	**4.8**	**9,530**	**42.0**

ANNEX

How Business Rates works

Non-domestic rates (Business rates) are a property-based tax charged to businesses and the public and third sectors, based on a property's rateable value. The revenue from NDR helps fund local services, including services to business. There are three main bodies involved in the rating system:

- the Scottish Assessors, assess the rateable values of non-domestic properties
- the Scottish Government sets the annual tax rate ("Poundage") and sets out and funds the national framework for reliefs, and
- local authorities, determine relief eligibility, issue NDR bills and collect payments.

The **Rateable Value** - set by the Scottish Assessors who work independently of the Scottish Government - is broadly equivalent to a year's fair market rent at the "Tone Date". The Assessor compare a range of property information and study the rental market to arrive at Rateable Valuations.

Each individual property's bill is based on a proportion of the rateable value. This proportion is set annually by the Scottish Parliament and is called the **Poundage**. Each bill is therefore calculated as follows:

Business Rates Bill = Poundage x Rateable Value

Larger properties pay a larger tax rate through the addition of a poundage supplement – the Large Business Supplement.

How the Revaluation works

At regular intervals there is a statutory revaluation of the rateable value of all non-domestic properties. The rateable values of non-domestic properties are determined by the Scottish Assessors. They work independently of both the Scottish Government and local authorities.

Following a revaluation new values generally remain unchanged until the next revaluation unless properties are altered or other changes take place.
The Assessor is required to notify proprietors, tenants and occupiers of all changes which are made to the Valuation Roll by issuing a Valuation Notice.