Rural Services Network briefing

Business rates retention
Note 3: Mandatory and discretionary rate relief

This is one of four briefing notes about the Government's proposals to radically overhaul local government finance by introducing 100% Business Rates retention. Their prime purpose is to aid understanding of the proposals and rural issues arising. They are based upon research commissioned from Pixel Financial Management.

Mandatory reliefs

There are three types of mandatory relief from business rates. They are:

- *Small business rate relief* (SBRR): businesses in one property with a low rateable value (RV) can apply for a 50% discount;
- *Charitable and community organisations*: who can apply for an 80% discount; and
- *Rural rate relief*: in small settlements (less than 3,000 population) businesses which are the only shop, post office, pub or petrol station and have a low rateable value can apply for a 50% discount.

Furthermore, certain categories of building are entirely exempt from business rates, including agricultural land and buildings, parish halls and churches.

Rural-urban comparisons

The extent of mandatory rate relief is particularly high in the most rural local authority areas i.e. those classified as R80. In R80 authorities they cost £45 per head of population in 2015/16. In the other two categories of authority classified as rural – R50 and Significant Rural (SR) – they are cost about £30 per head or much the same as in urban areas.

Similarly, mandatory rate reliefs represent some 12% of gross rates payable (GRP) by businesses in R80 authorities. In contrast they represent half as much (6% of GRP) in the most urban areas. In R50 authorities they represent nearly 10%.

Where the costs and benefits fall

How mandatory rate reliefs are paid for therefore matters a lot to rural authorities. Until 2013 their cost was fully borne by central Government, but it has only funded half the cost of changes since that date (except SBRR, which has its own system). Hence, if mandatory reliefs increase by £60,000 a billing authority is £30,000 worse off: if they decrease by that amount the billing authority is £30,000 better off.

This has implications for a system, as proposed, based on business rates retention. Growth in new businesses would produce less additional income for rural (especially R80) authorities than it would for urban authorities.

Discretionary relief

Local authorities, when billing for business rates, have discretion to agree higher discounts than the mandatory levels. A village shop could, for example, apply for and be given an 80% discount (which is 50% mandatory and 30% discretionary) or even 100% at the discretion of the billing authority.

Discretionary rate relief can be given to any businesses irrespective of whether or not they are eligible for mandatory relief.

The costs of discretionary relief is much less than the value of mandatory reliefs. However, it is still more significant in rural areas. In 2015/16 discretionary rate relief represents 0.7% of GRP in R80 authorities, and 0.5% of GRP in both R50 and SR authorities. This compares with 0.3% in the most urban authorities. Rural authorities give more relief to charitable/community organisations and (especially) to rural retail businesses, both of which may be financially marginal.

Rural rate relief

Rural rate relief can, therefore, be paid both as mandatory and discretionary relief. In 2015/16 these cost almost £11 million. They are valuable for many small rural businesses and, unsurprisingly, are worth much more in rural authority areas. The cost per head of population is 83 pence in R80 authorities; 48p in R50; 28p in SR; and between 1p and 3p in urban authorities.

It is a working assumption that under a system based upon 100% business rates retention any increase in rate relief must be fully funded by local authorities, without any central Government contribution.

Overview

A conclusion from all of the above is that in rural areas growth in the business rates base tends to get eaten away by the cost of funding rate reliefs. It will be harder for rural authorities to convert economic growth into extra business rates income.

RSN asks of Government

To address these issues the Rural Service Network view is that Government should consider the following:

- Retaining rural rate reliefs in something like their current form in the new system;
- As a minimum, taking full account of current levels (in each authority) of rate reliefs within the baseline that is set for the new funding system;

- Continuing some mechanism for centrally funding a share of any growth in rate reliefs, since this is largely outside a local authority’s control.

Briefing note number one provides an overview of the proposed business rate changes, whilst notes two and four look at further specific aspects of business rates and the rural issues that arise from a funding system dependent on them.

RURAL SERVICES NETWORK

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