



CABINET REPORT

Report Title	BUSINESS RATES DISCOUNTS WITHIN THE ENTERPRISE ZONE
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	11 th July 2012
Key Decision:	Yes
Listed on Forward Plan:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Resources Directorate
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	All

1. Purpose

- 1.1 The report sets out the proposed use of discounts for businesses located within the Waterside Enterprise Zone within Northampton.

2. Recommendations

That Cabinet:

- 2.1 Agrees the discount scheme for new and existing properties within the enterprise zone proceeds.
- 2.2 Notes the issues and risks associated with the award of discounts within the Waterside Enterprise Zone.
- 2.3 Delegate to the Director of Resources in consultation with the Cabinet Member for Finance, to make changes to the discount scheme should the Government make any changes to funding of the scheme.

3. Issues and Choices

3.1 Report Background

- 3.1.1 In March 2011, Government announced plans for a 'new wave' of local Enterprise Zones, with 21 in total to be created across the UK. The Council submitted a comprehensive bid to CLG on 30th June, for consideration and approval as part of the competitive process. The Council was successful in its bid for the Waterside Enterprise Zone (see map attached at Annex 1).
- 3.1.1 Enterprise Zones seek to stimulate economic growth through tax breaks, reduced planning restrictions and "superfast" broadband. They can offer a business discount rate for five years for firms that move into the area before 31 March 2015.
- 3.1.2 The uplift in business rates receipts, as a result of the introduction of the Enterprise Zone, will be used to support the priorities of the local enterprise partnership. All business rate growth within the zone for a period of at least 25 years will be retained and reinvested in the local area, to support the local enterprise partnership's priorities.
- 3.1.3 The Non-Domestic Rating Contributions (England) (Amendment) Regulations 2012 were laid in Parliament on 7 March, came into force on 31 March, and apply from this financial year (2012/13).
- 3.1.4 Authorities are able to provide discounts using the new local discount powers contained in section 47 of the Local Government Finance Act 1988 as amended by Section 69 of the Localism Act 2011. Although the use of the power is entirely a matter for Northampton Borough Council (NBC), we are encouraged to discuss this with the Local Enterprise Partnership who has overall responsibility for the zone (SEMLEP).
- 3.1.5 Clause 69 of the Localism Act amended section 47 of the Local Government Finance Act 1988 also allows local billing authorities to fund their own local discounts.
- 3.1.6 The Chief Finance Officer, through delegation within the Constitution, has the power to make a decision to award the discounts. However, as this decision is upon the level of discount, it would be appropriate for Cabinet to approve.
- 3.1.7 Starting from 1 April 2012, authorities are now able to grant business rates discounts entirely as they see fit within the limits of the primary legislation and European rules on state aid. These new powers can be used to encourage new business and investment, as well as to support local shops or community services.
- 3.1.8 Although the power to grant local discounts rests with billing authorities, they are expected to work closely with county councils on the use of the power.
- 3.1.9 Authorities should note that if the relief were not granted for a fixed period the usual notice period for ending discretionary relief would apply, currently 12 months.

3.2 Proposed Scheme within the Enterprise Zone

- 3.2.1 The preferred option will be to provide existing and new businesses full discount. This option is seen as the most advantageous to attracting business to the zone alongside the simplest to administer. Effectively this would mean that all businesses and business sectors within the Enterprise Zone Boundary receive the discount up to the state aid De-minimis level of €200k in a three-year period (approximately £55k per annum).
- 3.2.2 The discount can award up to a maximum of 100% of business rates, for a five-year period up to state aid de minimis levels highlighted above.
- 3.2.3 Discounts for a business with more than one property can be granted, subject to state aid rules.
- 3.2.4 Discounts can be granted from the 1st April 2012, or the day the business enters the Zone if this is after the 1st April 2012 and before 1st April 2015.
- 3.2.5 Owners of empty properties can receive a discount and this will be funded in the same way.
- 3.2.6 Existing reliefs will be applied to the bill first. E.g. if a business is entitled to 50% small business rate relief, the discount would be applied to cover the remaining 50%.

3.3 Funding arrangements

- 3.3.1 In 2012-13, the Government will fund discounts granted within the Enterprise Zone for a period of 5 years. The regulations provide for the costs of any discount under section 47 (i.e. including discounts to existing business and empty properties) granted in the zone, provided it complies with state aid de-minimis limits, to be offset against the billing authority's contribution to the central pool i.e. NBC contribution would be reduced by the total cost of award made within the zone.
- 3.3.2 Any discounts outside of the enterprise zone would be funded by NBC and no proposal has been made to offer discounts outside of the boundary for the zone.
- 3.3.3 For 2013-14 onwards, central Government will fund the discount under the new retention of business rates scheme being introduced. Please see 3.5 Issues, for more information on the new business rates retention scheme.
- 3.3.4 If a business enters the zone on 1 April 2015 or later, it would not be eligible for a Government funded discount.
- 3.3.5 Billing authorities are responsible for managing state aid issues and advice will be required on how we assess.

3.4 State aid

- 3.4.1 Tax exemptions are capable of constituting State Aid, which is why business rate discounts in Enterprise Zones must be administered within State Aid levels set out in the De-minimis Regulations.

- 3.4.2 For most organisations, the total amount of De-minimis aid that can be paid will be €200,000 within a three-year period. It is awarded on a rolling basis, although the three-year period could either be all in one year, then none for the following two, or spread equally over the three years.
- 3.4.3 The De Minimis threshold applies to all aids received by a parent company / group of businesses rather than just a subsidiary, i.e. a subsidiary located in an Enterprise Zone would not be eligible for the discount if its parent company (located elsewhere) had already received up to or over the De Minimis level of state aid in the three year period.
- 3.4.4 Under the Enterprise Zone business rate discount scheme, the billing authority is the aid administrator and so is responsible for ensuring the rules are met.
- 3.4.5 The administrator will be required to report upon the total amount of aid provided each year through the De Minimis exemption. Care should be taken to ensure they comply with all the requirements set out in the De Minimis Regulation. The key requirement is that the provider of the aid writes to the company in question to inform them of the intention to grant De Minimis aid, with the company informing them of any De Minimis aid they have already received.

3.5 Issues

- 3.5.1 The assessment and administration of discounts within the zone will require additional funding both in terms of set up and ongoing management via the Councils consortium business rates service. Costs however will be kept to a minimum and funded via the income received from the enterprise zone.
- 3.5.2 The Government is currently undertaking reform of local government finance, which includes the introduction of the local retention of business rates. Key to the funding distribution under the new scheme is the business rates baseline and the amount of business rates collected. The baseline will be calculated by taking an average over a number of years (how many yet to be confirmed) and adjusting for a schedule of allowable deductions (yet to be determined).
- 3.5.3 Business rates for existing businesses in the Enterprise Zone at 1 April 2012 form part of the baseline for the local retention of business rates scheme (for which CLG has yet to publish the final details). Any discount given to local businesses in the Enterprise Zone would normally therefore result in a reduction in business rates compared to the baseline and so the Government has written to Chief Finance Officers to confirm that CLG will fund Enterprise Zone discretionary discounts given to existing businesses for 5 years from 1 April 2012.
- 3.5.4 For 2012/13 this will be through a reduction in the amount of pooled NNDR to be paid across, and from 2013/14 onwards it will be built into the local retention of business rates calculations. How this will work has yet to be announced by CLG, but there are medium-term risks associated with the proposals for 2013/14 onwards that is explained in section 4.2 below.

- 3.5.5 All growth in business rates (above the baseline) in the Enterprise Zone from 1 April 2012 is ring fenced to the Local Enterprise Partnership for 25 years. Growth covered by this ring fencing is excluded from the local retention of business rates scheme and therefore will have an influence on decisions taken in respect of pooling. A business plan for the Enterprise Zone is being developed and will be presented to cabinet in the autumn.
- 3.5.6 Any Enterprise Zone discounts given to new businesses entering the Enterprise Zone between 1 April 2012 and 31 March 2015 will be funded by CLG for 5 years. There is discretion to offer discounts after that, but that would have to be funded at a local level. In the current financial climate NBC would not consider funding an extension of the discounts to new businesses entering the Enterprise Zone after 31 March 2015.
- 3.5.7 It has been confirmed that a new business replacing a business that was in place in the Enterprise Zone at 1 April 2012 would count as replacing the original business for the purposes of the local retention of business rates scheme baseline up to the rateable value of the original business. Should the new business redevelop the site and increase the rateable value, the excess above the baseline will be considered business rates growth would be funded by the government and ring fenced to SEMLEP.
- 3.5.8 Rules relating to displacement of existing businesses within Northampton re-locating into the zone will need to be considered. This will ensure that the business rates consortium can accurately award discounts to those entitled.
- 3.5.9 Displacement could also remove growth from outside of the enterprise zone and with growth being retained by the Enterprise Zone mean that lower retention would be received for NBC, due to reduction in growth outside of the zone. Equally displacement may free up sites allowing future opportunities for development which may be more suited for those locations.
- 3.5.10 It is proposed that discounts for businesses who relocate to the enterprise zone from other areas of Northampton will also receive 100% discount in the same way as other businesses moving into the Enterprise Zone.
- 3.5.11 A process and set of procedures for handling complaints and challenges will need to be created. Following the introduction of any discount scheme, challenge could be made from business located outside of the enterprise zone. This is on the basis that those outside the Enterprise Zone could perceive it as an unfair trading advantage, especially in times of recession.
- 3.5.12 Further guidance on assessing existing levels of state aid will be required in order to assist on the accurate award of discounts.
- 3.5.13 Providing a full discount within the zone could see other Councils offering similar discounts, albeit any discounts offered outside of an Enterprise Zone would need to be funded by the Local Authority.

3.6 Choices (Options)

- 3.6.1 Explore alternative discount schemes within the Enterprise Zone, although any reduced benefit could impact on the attractiveness of the zone.
- 3.6.2 Explore different schemes for New and existing business that incentivise moving into the zone from outside of Northampton or from within Northampton in order to grow the business.
- 3.6.3 Grant 100% discounts to businesses in the Enterprise Zone as long as they are funded by Central Government.

4. Implications (including financial implications)

4.1 Policy

None

4.2 Resources and Risk

- 4.2.1 Initial resource estimates for implementation and ongoing administration are shown below, however these are subject to the scheme proposed and final calculation:

Implementation costs	£8,500
On-going administration	£4,000 per annum

The implementation costs will be funded from the Enterprise budget and the ongoing administration costs will be included in the medium term financial plan.

- 4.2.2 If appeals and complaints are to be handled by the business rates team, costs would be anticipated over the initial 12 months of the discounts scheme therefore a minimum contingency of £10,000 should be set aside from the Enterprise Zone budget to cover the cost of appeals. This is merely a rough estimate and will need to be revisited as and when appeals present.
- 4.2.3 Funding for relief for existing businesses comes through the local retention of business rates scheme for 4 years from 2013/14 (2012/13 is through NNDR pooling adjustments). There is a risk that at the end of the period the funding could be removed at its original value, without being reduced for the annual funding reductions arising from the Comprehensive Spending Review and without the authority being allowed to retain the rates now being collected after the relief period ends.
- 4.2.4 The risk is considered low to medium, but the authority will need to monitor this carefully towards the end of the Enterprise Zone discount funding period (and raise with CLG if necessary) to make sure that giving this discount does not leave the authority in a worse position than if it hadn't.
- 4.2.5 As outlined at 3.5.9 above, displacement could remove growth from outside of the enterprise zone and with growth being retained by the Enterprise Zone mean that lower retention would be received for NBC, due to reduction in growth outside of the zone.

4.2.6 A process and set of procedures for handling complaints and challenges will need to be created. Following the introduction of any discount scheme, challenge could be made from business located outside of the enterprise zone. This is on the basis that those outside the Enterprise Zone could perceive it as an unfair trading advantage, especially in times of recession. This could have significant resource implications.

4.2.7 Risks associated with the award of discounts are part of the overall risk log for the Enterprise Zone project.

4.3 Legal

These are covered within the body of the report.

4.4 Equality

A high level Equality Impact Assessment has been undertaken. There were no equality issues arising from the assessment.

4.5 Consultees (Internal and External)

Internal: Finance & Resources
Legal Services
Regeneration and Development

External: Enterprise Zone Executive Group / Delivery Group

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The award of discounts provides a considerable incentive for business and compliments the wider opportunities offered by the enterprise zone.

4.6.2 A successful Enterprise Zone helps deliver a number of corporate priorities, and very specifically Priority 1, Northampton – on track, which includes:

- An economically prosperous, successful and vibrant Town
- The Town is nationally recognised as an economic hub and a place to do business
- Increased job opportunities and an improvement in the quality of jobs available

4.7 Other Implications

None

5. Background Papers

The Non-Domestic Rating Contributions (England) (Amendment) Regulations 2012
Local Government Finance Act 1988, section 47
Localism Act 2011, Section 69

Enterprise Risk Register
Equalities Impact Assessment

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