Finance
7 Newington Barrow Way
London N7 7EP

Report of: Executive Member for Homes and Communities

Meeting of: Executive

Date: 12 January 2023

Ward(s): All

Subject: Discretionary Rate Relief Programme 2023

1. Synopsis

Islington has an extensive range of independent charities, voluntary and community sector (VCS) organisations and other not-for-profit organisations whose work is central to the Council's ambitions for a more equal Islington. Through their reach and responsiveness these organisations improve outcomes for residents across the Council's corporate priorities and support the Council's early intervention and prevention ambitions.

The Discretionary Rate Relief (DRR) Programme supports organisations by providing relief for business rates subject to the criteria within the DRR policy. This paper sets out options to be considered as part of a review of the current DRR Programme 2020-2023 in order to inform a decision for a new DRR Programme from 1 April 2023 and includes a proposed revised policy (appendix 1).

2. Recommendation

- To review the options outlined in section 4 and the proposed policy from 2023-2026 and agree the recommended option (option 3)

3. Background

As a “billing authority” Islington has the power to grant Discretionary Rate Relief to organisations that meet certain criteria (as per the DRR Policy 2020-2023). Any relief granted is used to reduce the amount the organisation is required to pay in business rates. Powers granted under the Localism Act 2011 allow Councils to grant DRR in any circumstances where it feels fit having regard to the effect on the Council Taxpayers of its area.

In recognition of the value that not-for-profit organisations play in improving the lives of local residents, the Council’s Executive agreed a Discretionary Rate Relief Policy 2020-23 in November 2019, committing to provide Discretionary Rate Relief to not-for-profit organisations and charities at the level of £410K of forgone business rates income for the Council per annum.

The Council’s 2020-23 DRR programme was launched in December 2019 with two application deadlines per year, however during the Covid 19 pandemic it was recommended that organisations applying outside of funding rounds be brought to the next available VCS Committee for approval in order to prevent delays and support the sector during this challenging time. Those hereditaments which do receive DRR awards are then provided with this relief for the duration of the programme (up to 31 March 2023).

This programme represents value for money in supporting organisations awarded DRR as the Council can provide top up relief of 20% for those organisations eligible for Mandatory Rate Relief (which provides 80% relief on business rates), or 100% relief to organisations who are not eligible, with the Council only bearing 30% of the overall costs of discretionary rate relief incurred as foregone income.

To date DRR has been awarded to 170 hereditaments across the borough. The present total in relief awarded is £1,210,755.40 with £363,226.62 being the cost to Islington Council in foregone income. This amount is subject to change as a result of changing valuations and reliefs, explained in more detail later in this report.

The organisations awarded DRR sit within the following categories:

- Voluntary and Community Sector Organisations including Estate-based Community Centres and Associations (VCS)
- Schools, Education and Nurseries
- Leisure Centres/Facilities

Please see below the breakdown across the DRR programme in terms of accounts and relief awarded for the three categories:

Category	Number of Accounts/ Hereditaments	Relief awarded per annum	Foregone income for the Council per annum
VCS	133	£696,684.85	£209,005.46
School/Education/ Nurseries	28	£344,491.77	£103,347.53
Leisure Centres/Facilities (GLL)	9	£169,578.78	£50,873.63
TOTAL	**170**	**£1,210,755.40**	**£363,226.62**

As will be noted in the table above the VCS category receives the highest number of awards with the majority of relief awarded to support 133 hereditaments. However, Schools, Nurseries and Education with only 28 hereditaments costs the council over £100k in foregone income per annum taking a sizeable amount of the DRR pot. The same is shown with nine Leisure Centres/Facilities, all of which are Greenwich Leisure (GLL) costing the council over £50k in foregone income per annum.

The decision was taken to close the current DRR programme 2020-2023 in September 2021 because there are a number of properties which have been awarded DRR but require valuations to establish business rates (approximately 9 properties outstanding). During the pandemic the Valuations Agency Office (VAO) stopped completing these and the outstanding properties were considered to potentially bring the foregone income amount to the limit. In addition, as covid related reliefs came to an end and inflationary increases to business rates were scheduled this meant that the amount of relief awarded could increase and the decision was taken to the Voluntary and Community Sector Committee and agreed.

It is now necessary to consider options for any new programme and policy for rates relief from 2023.

4. Options Appraisal

Please find below three options relating to this rates relief for review, including implications:

1.End the Discretionary Rate Relief Programme

This would mean that after the current programme 2020-2023 ends (31 March 2023) there would be no future programme in place. Organisations who are awarded DRR in the current programme would be required to make arrangements for the payment of business rates from 1 April 2023 onwards and no further organisations would be supported through this programme.

This would support the council towards addressing the budget gap which is a result of the foregone income currently agreed through the programme. However, it would have implications for organisations often working with those most disadvantaged in the community. Ending the programme would affect the Council's commitment to continuing support for the voluntary and not-for-profit sector in the borough and could result in organisations being unable to pay business rates costs.

There would also not be a direct pound for pound financial saving to the Council. By ending the scheme, the Council and some schools will be liable for an increase in their rates bill for those hereditaments granted relief. This will offset the financial benefit considerably, for example GLL are granted around 10% of the DRR provision.

2.Continue the Discretionary Rate Relief Programme in its current form maintaining the level of forgone income of £410k

This would mean that current programme would come to an end on 31 March 2023. The DRR programme would continue in its current form for a further three years from April 2023. The council would need to commit to continue to forego income of up to £410k per annum.

Organisations that are currently part of the programme would be asked to fill in a form to confirm that their circumstances have not changed. This would save VCS organisations who are really stretched at the moment supporting residents with the cost-of-living crisis a lot of time filling out applications. It would also save council officer time processing and assessing applications.

This option would mean that the DRR programme would not be open to any new organisations. It would also mean that due to inflationary increases year on year less organisations would benefit from the programme and there would not be an opportunity to support any new or additional organisations through the programme.

3.Review and revise the Discretionary Rate Relief Programme

This would involve updating the current policy (see appendix 1) in order to ensure value for money in how awards are made to organisations and that the impact of the programme was of maximum benefit to residents in the borough. A new policy would begin on 1 April 2023 and run for 3 years until 31 March 2026.

Organisations currently in receipt of relief would be notified and would need to reapply for the new programme to ensure they meet the new criteria. This would also provide an opportunity for new organisations to apply for the scheme. It is proposed that the council will maintain the current level of £410k per annum of forgone income. The council should also consider whether this amount can be increased accounting for inflationary pressures.

There would be an application and assessment process put in place and organisations would then be ranked and DRR proportioned (where applicable) depending on impact of organisation, social value, and alignment with the Council's Strategic Plan. The assessment would include an advisory panel comprising of staff from the business rates team and the community partnerships team. Respective roles of the teams in the process have been agreed.

All decisions for awards are taken to the Voluntary and Community Sector Committee for final approval and this arrangement would continue for the duration of the programme, or until the agreed foregone income levels are reached.

There is a clear need for this type of relief to support voluntary and community organisations working in the not-for-profit sector particularly coming out of the COVID-19 pandemic and with the cost-of-living crisis impacting residents and organisations.

Option 3 is recommended as the preferred option.

5. Timeline and next steps

As part of the Council's decision-making process, this report will be taken to Joint Board and Executive for agreement. If a new scheme is to be in place for April 2023 it is vital that VCS and other eligible organisations are informed and given time to apply in early January. The table below sets out the key meetings and dates for this report.

Meeting	Reports to Democratic Services	Despatch	Meeting date
Joint Board	25th November	30th November	6th December
Executive	10th December	4th January	12th January

6. Implications

Financial Implications

DRR is awarded at the discretion of the council both to registered charities, voluntary and not for profit sector. The value of reliefs awarded could range from 20% to 100%, depending on the eligibility criteria. Under the current business rates retention scheme, the Council bears 30% of the costs of discretionary rate relief, (with 33% and 37% borne by Central Government and the Greater London Authority respectively).

For the proposed three options the financial impact to the council as follows:

Option 1-End the Discretionary Rate Relief Programme.

The future costs would be nil to the council with the council's collection fund position improving by £0.410m, all other factors being equal. Removing support would place an extra financial burden on the previously supported organisations.

Option 2-Continue the DRR programme-Current Format

If Islington's retained share of business rates remains at 30%, the council's collection fund position will continue to forego approximately £0.410m worth of business rates income annually, subject to future changes in the business rates multiplier or rateable values for supported businesses.

Option 3 Review and Revise the Future Discretionary Rate Relief Programme.

The overall future cost of DRR is uncertain, not least because of the current level of inflation and the next business rates revaluation which will take effect from 1 April 2023. The government may choose to mitigate the impact of inflation by freezing or capping the business rates multiplier, and transitional relief may mitigate the impact of the business rates revaluation. Any revised scheme will need to be modelled to ensure the foregone income total is known and any changes to the current level must be accounted for in the Councils MTFS.

Legal Implications

The Council has a discretion to grant rate relief as set out in the policy. The policy provides guidelines as to the circumstances in which awards will be made and as to the total amount of awards that can be made, and permits a departure from those guidelines in exceptional circumstances.

Public funding/support given in Great Britain since 1 January 2021 is no longer subject to state aid law. New rules on subsidy control now apply, which are in many ways closely analogous to EU state aid law. Public authorities are to make a case by case consideration of their proposed subsidy in compliance with the Trade and Cooperation Agreement (TCA) reached between the UK and the EU. The TCA is incorporated into domestic law by virtue of Section 29 of the EU (Future Relationships) Act 2020.

The concept of subsidy subject to the TCA requirements is defined in very broad terms. A subsidy is a measure which:

a) is given by a public authority (including a local authority)

b) makes a contribution to an enterprise conferring an economic advantage that is not available on market terms (for example, grants, loans at below market rate, or allowing a company to use publicly owned offices rent free). An enterprise could be a government department or charity if it acts commercially; and

c) affects international trade

The UK-EU TCA obligations must be met if they apply, and the subsidy must meet the terms of its principles. The TCA sets out principles which all subsidies of more than 325,000 Special Drawing Rights (approximately £350,000) given to a single beneficiary over 3 years must meet.

The only exceptions are subsidies to compensate for natural disasters, subsidies for agriculture and subsidies for audio visual. If in scope, the council must consider these principles in the design and granting of subsidies on a case-by-case basis. Failure to do so could leave the council open to judicial review.

The principles are that the subsidies should:

i. Pursue a specific public policy objective to remedy an identified market failure or to address an equity rationale such as social difficulties or distributional concerns ("the objective")

ii. Be proportionate and limited to what is necessary to achieve the objective

iii. Be designed to bring about a change of economic behaviour of the beneficiary that is conducive to achieving the objective and that would not be achieved in the absence of subsidies being provided

iv. Not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy

v. Should be an appropriate policy instrument to achieve a public policy objective and that objective cannot be achieved through other less distortive means

vi. Subsidies' positive contributions to achieving the objective should outweigh any negative effects, in particular the negative effects on trade or investment between the UK and EU.

The government is seeking views on the best way to design a bespoke approach to UK-wide subsidy control, including any additions to the principles underpinning the regime and any subsidies which should be excluded from the commitments to these principles. It is also seeking thoughts on how best to manage the most distortive kinds of subsidies, in addition to opinions on the role and powers of the independent body that will oversee the regime. The government aims to deliver a subsidy control regime that:

· Facilitates strategic interventions to support government priorities, including supporting the economy's recovery from COVID-19

- Takes account of the economic needs of the UK’s individual nations and strengthens the economic bonds of our Union

- Protects the UK’s competitive and dynamic market economy and

- Ensures that subsidies in the UK are given in line with our international commitments including those in the UK-EU TCA

On 28 April 2022 the UK’s Subsidy Control Bill became the Subsidy Control Act 2022 (“the Act”), however most of the Act has not yet come into force. The interim regime based on the UK-EU TCA remains applicable. The government is currently undertaking an open consultation to seek views on the draft guidance for the Act. The new regime is expected to be operational from Autumn 2022.

For the avoidance of doubt, the council can still pay out subsidies over previously approved schemes as these will be in line with the principles. This includes subsidies related to COVID-19 that have previously been given under the State Aid Temporary Framework. The council must keep these schemes under review and apply the principles to any changes made to these schemes.

Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

The policy for 2020-2023 mandates that DRR awards cannot be made for car parking spaces, in line with Islington’s ambition to achieve net zero carbon emissions from the borough by 2030. The awarding of DRR is unlikely to have any significant direct environmental impact, however, part of the current application process asks organisations how they are contributing towards the net zero emissions ambition. The answer to this question makes up 33% of the scoring that forms the basis of the decision on which organisations to award rates relief to. This will encourage organisations to reduce their carbon emissions in order to obtain relief, and rewards organisations that do so.

If there is no further DRR programme this may mean that organisations have less capital available to implement and continue carbon reduction or energy efficiency measures.

Equalities Impact Assessment

The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

Organisations recommended for DRR are particularly focussed on serving disadvantaged and vulnerable residents including those across the protected characteristics. Many groups are based on Council Housing Estates or located in deprived neighbourhoods. The criteria for DRR were drawn up specifically to support organisations that create a fairer Islington by delivering the commitments in Islington's corporate plan.

An Equalities Impact Assessment may need to be completed should the decision be made to close the programme to measure the impact on organisations who would be eligible but are required to make payment for business rates.

7. Conclusion and reasons for recommendation

The Council has a strong partnership with the voluntary, community and not-for-profit sector and values highly the role that local organisations play in meeting the needs of some of Islington's most disadvantaged communities.

Awarding discretionary rate relief to not-for-profit organisations or other bodies providing a community or social benefit is a cost-effective way of supporting local organisations delivering the commitments set out in our corporate plan.

Appendix:

- Appendix 1- Proposed Discretionary Rate Relief Policy 2023-2026

Final report clearance:

Signed by:

Una O'Halloran

Executive Member for Homes and Communities

Date: 12 December 2022

Report Authors: Shabana Aslam and Andrew Spigarolo
Email: Shabana.Aslam@islington.gov.uk and Andrew.Spigarolo@islington.gov.uk

Financial Implications Author: Khogen Sutradhar
Tel: 020 7527 2499
Email: Khogen.Sutradhar@islington.gov.uk

Legal Implications Author: Sonal Mistry
Tel: 020 527 3833
Email: Sonal.Mistry@islington.gov.uk