GERALD EVE'S RATING NEWS UPDATE

SPRING 2011

THE BUDGET AND LOCAL GOVERNMENT RESOURCE REVIEW

The Chancellor announced two key business rates related initiatives in his Budget Statement on 23 March. Both relate to England only. They are for a continuation for a further 12 month period of the enhanced small business rates relief scheme enacted initially in the emergency budget following last year's election and the creation of 21 new Enterprise Zones as part of the Government's economic growth agenda.

CONTINUATION OF THE ENHANCED SMALL BUSINESS RATES RELIEF SCHEME

The Small Business Rates Relief scheme, first introduced in 2005, allows businesses to apply for relief so long as they occupy only one property in England and its Rateable Value is below £12,000. Following the 2010 rating revaluation the amount of relief was set at 50% if the RV was less than £6,000 reducing on a sliding scale to nil between RV £6,000 and £12,000.

If a small business occupies more than one property it qualifies for relief only if the principal property for which relief is being claimed is assessed at below RV £12,000, with the RVs of any other properties each being below £2,600 and the aggregate RV of all its properties falling below £18,000 (£25,500 in London).

In last June's emergency budget, the Government legislated for an enhanced level of relief to apply from 1 October 2010 to 30 September 2011, so that no rates are payable by qualifying small businesses where the RV is below £6,000 and the previous level of relief was doubled between RV £6,000 and £12,000.

This additional relief was extended in the recent budget for a further 12 months until 30 September 2012. As a consequence, eligible small businesses with assessments below RV £6,000 will have no rates liability until 1 October 2012. Above £6,000, the relief will reduce on a sliding scale from 100% at RV £6,000 to 0% at RV £12,000. The Government calculates that this will save small businesses £370m in total.

This is clearly welcome news for qualifying businesses, although we have no doubt that they will be further confused by the need for revised rates bills. In recent weeks they will have received rates bills covering 2011/12 showing their liability increasing in October 2011 and local authorities will have to issue amending demands once the requisite legislation is passed, reducing the sums payable.

21 NEW ENTERPRISE ZONES

The other well trailed Budget announcement relates to the plans to create 21 new Enterprise Zones. The general locations of 11 of these zones were confirmed in the Budget Statement with more precise details given the following day in respect of four of the zones (see box). Local Enterprise Partnerships are invited to submit proposals and bid for the remaining 10 zones.

The Budget announced that eleven local enterprise partnerships will be invited to come forward with proposals for enterprise zones. They are:

Liverpool City Region; Black Country; Nottingham, Nottinghamshire Derby and Derbyshire; Western England (includes Bristol); London; Greater Manchester; Leeds City Region; Sheffield City Region; North Eastern; Greater Birmingham and Solihull; Tees Valley.

The exact location of four of the new zones has been confirmed as the Boots campus in Nottingham, Liverpool Waters, Manchester Airport, and the Mayor has said London's Zone will be in the Royal Docks.

It is clear from the planned size of the new zones of between 50 and 150 hectares and of the limited scale of rates relief that will be available within the zones, that the Government is keen to avoid some of the criticisms of the first Enterprise Zones established in the 1980s and 1990s. These were that the cost of each new job created was excessive, that the level of incentives led to existing businesses relocating rather than the creation of new ventures and that the rates relief benefited property owners and developers to a greater extent than occupiers.

Proposed benefits for the new zones include:

- new occupiers moving into a zone before 1 April 2015 will benefit from a business rate discount worth up to £275,000 per eligible business over a five year period
- government help to develop radically simplified planning approaches for the zone
- government support to ensure that superfast broadband is rolled out throughout the zone
- all business rates growth within the zone for a period of at least 25 years will be shared and retained by the local area, to support the Local Economic Partnership's economic priorities and ensure that Enterprise Zone growth is reinvested locally

It can be seen from these criteria that existing occupiers within a zone will not benefit from rates relief, although given the Government's stated vision that Enterprise Zones will generally be 'based on "clean" sites with little or no business occupants' this may not be a material factor. The limit on rates relief of £55,000 per annum is set having regard to European rules on State Aid. £55,000pa equates to a Rateable Value of about £125,000, the consequence of which is that opportunities will tend to focus on smaller scale developments.

Another key difference from the first Enterprise Zones is the intention for the new rates revenues in the zone to be retained locally for a minimum of 25 years to be invested locally, rather than merely added to rates collected locally but passed to the Exchequer. This approach is consistent with the Government's clear direction of travel of its Local Government Resource Review – see below.

Further options which the Government will consider to support individual Enterprise Zones, depending on local circumstances, include:

- enhanced capital allowances for plant and machinery where there is a strong focus on manufacturing
- Tax Increment Finance to support the long term viability of the area
- UKTI support for inward investment or trade opportunities in the zone

LOCAL GOVERNMENT RESOURCE REVIEW (LGRR)

We explained the background to the LGRR in our **December Rating News Update** with the Government's stated intention that it would commence in January and consider ways to incentivise local authorities to achieve growth and to reward them for achieving it.

January came and went without any signs of the review having begun despite it being promised 'imminently' on a number of occasions. The silence continued throughout February and was only broken on 17 March when the terms of reference for the review were published (see summary box).

The delay was seemingly caused by infighting between the two coalition parties. Secretary of State for Local Government, Eric Pickles, wanted to limit the scope of the review to business rates retention as set out in last October's Local Growth White Paper, whereas Nick Clegg was pressing for a much wider local government finance review as had originally been included in the programme for government. This would have included options to give local authorities greater freedom to set their own local charges such as a tourism tax, local sales tax and the like.
The published terms of reference indicate that the Secretary of State's preferences seem to have prevailed, although the inclusion of a requirement to 'examine the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers' indicates an opportunity for the review team to consider wider options.

Amongst the Local Government Resource Review's terms of reference are to consider:

a) the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;

b) the extent to which these proposals can set local authorities free from dependency on central funding;

c) how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;

d) how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;

e) how various aspects of the business rates system, including business rates revaluation and reliefs, should be treated.

Notwithstanding the delay in initiating the review, we understand that it is still intended that it should conclude in July with its recommendations implemented by April 2013, subject to parliamentary approval. There is no formal consultation process presently which is disappointing given the radical changes under consideration. We will, however, be playing an active role through our head of rating, Jerry Schurder, who has been asked to join a group of business representative organisations to advise the Government on the resource review. He will be attending regular meetings of this group over the coming months and will be pleased to meet to discuss your attitude to the changes under consideration so that he can feed them to the review body.

Please email or telephone **Jerry** if you wish to discuss this important topic. Jerry can be reached at **jschurder@geraldeve.com** or on **020 7333 6324**.

SCOTTISH LARGE RETAIL SUPPLEMENT ABANDONED

In our **December Rating News Update** we advised on the Scottish Government's proposal to implement a special business rates levy on large shops with an RV over £750,000. Regulations were laid to give effect to the scheme, but Parliament annulled the scheme given the lack of consultation or impact assessment and the effect on town centre retailers which were not the intended target of the levy.

The levy may not be dead however. We anticipate that it will be reviewed during the life of the next parliament and may include other property uses.

SCOTTISH PARLIAMENT ELECTIONS 2011

The country will go the polls on 5 May to elect a new parliament which will be fixed for the next five years (previously four years).

Presently, the Scottish Labour party is the only major party to have issued its manifesto for the forthcoming election.

They propose to continue with the Small Business Bonus Scheme and to maintain parity with the Uniform Business Rates in England and will seek to improve the current non-domestic rates system and review the reliefs available to ratepayers. We anticipate that the existing empty rates legislation, which is presently more beneficial than in England and Wales, may be looked at as a means of increasing the revenue generated from business rates.

They propose to review the frequency of rating revaluations but have confirmed that any changes will be accompanied by a transitional relief scheme.

The Labour Party wants to work with Scottish businesses and has given a guarantee that all future legislation and regulation announced by the Cabinet Secretary for Finance will be accompanied by a Business and Regulatory Impact Assessment.

GERALD EVE'S UK OFFICE NETWORK

Gerald Eve is the pre-eminent business rates adviser. We currently advise a quarter of the FTSE100 companies on rating matters. So far we have saved our clients occupying over 50,000 properties throughout the UK more than £1.3bn in rates liabilities since the 2005 revaluation.

We are very keen to tell you more about our approach and how we can assist you, so please contact **Jerry Schurder** on **020 7333 6324**, **jschurder@geraldeve.com** or your usual Gerald Eve contact to find out more.

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