



**Cabinet**  
11 February 2019

**Report from Strategic Director of  
Regeneration & Environment**

**Business Rates Relief Scheme for businesses accredited  
with the Living Wage Foundation**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Three Appendix A: Criteria for awarding NNDR Discount to Businesses Accredited with LWF Appendix B: List of accredited organisations and rates relief awarded from 2014-2018 Appendix C: London Boroughs ranked by order of number of LW accredited businesses
<b>Background Papers:</b>	None
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## 1.0 Purpose of the report

- 1.1 This report concerns the council's Business Rates Relief Scheme for businesses accredited with the Living Wage Foundation. The scheme was first trialled as a pilot in January 2015 in order to encourage more businesses to become accredited as Living Wage employers.
- 1.2 The scheme was reviewed in 2016 to assess its effectiveness and a three year extension to the programme was subsequently agreed. The current scheme runs until 31 March 2019.
- 1.3 This paper seeks Cabinet approval for the continuation of the scheme for a further four years until March 2023, and provides various options for Cabinet to choose from regarding how the scheme is implemented in this next phase.

- 1.4 Under section 47 of the Local Government Finance 1988 the council has the discretion to award business rates discounts to businesses. Cabinet approval is required to implement a discount scheme and accompanying criteria must also be approved by Cabinet. The suggested qualifying criteria is set out in Appendix A.

## **2.0 Recommendations**

- 2.1 That Cabinet approves the continuation of a discretionary business rates discount scheme for businesses accredited with the London Living Wage Foundation, using the qualifying criteria set out in Appendix A.
- 2.2 That Cabinet approves the continuation of the scheme for a four year period from 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2023.
- 2.3 That Cabinet approves the introduction of a cap on the maximum discount a business can receive, in line with Option 2 detailed in 3.19 - 3.20 below, and that the cap be set at £15,000 to guard against the Foundation increasing their costs again and large businesses being eligible for a higher discount.
- 2.4 That Cabinet notes that officers in Employment, Skills, and Enterprise and Customer Services will monitor the scheme in terms of take up and costs and will report back to Cabinet at a later date should any changes to the scheme be required.

## **3.0 Detail**

### Summary

- 3.1 The London Living Wage (LLW) is the hourly rate of pay a person living in London needs to earn to cover their basic living costs. The rate is set annually by the Resolution Foundation based on the Minimum Income Standard and overseen by the Living Wage Commission. The current LLW is £10.55 per hour<sup>1</sup>. All accredited organisations must ensure they have raised their hourly rate of pay to £10.55 by May 2019 in order to retain their accreditation.
- 3.2 In 2017 the Conservative Party re-named the Minimum Wage so that it is now known as the 'National Living Wage'. The current National Living Wage is £7.83 for people aged 25 and over. In other words, the National Living Wage is the legal minimum wage, and is separate to the voluntary 'London Living Wage (LLW)' which this paper discusses.
- 3.3 Businesses who choose to adopt the LLW can seek accreditation to formalise their status as a Living Wage employer. This accreditation is run by the Living Wage Foundation (the Foundation) who will verify the organisation is paying the correct rate each year and formally recognise them as Living Wage employers. The Foundation charge for the process of accreditation, with tiered charges depending on the size of the organisation.

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<sup>1</sup> A new LLW rate is announced annually in November and accredited organisations who wish to retain their accreditation have 6 months to implement the new rate.

- 3.4 In January 2015 Brent became the first local authority to award a Business Rates discount to companies who agreed to pay their employees the LLW and become accredited with the Foundation. Cabinet agreed to award a discount of five times the cost of accreditation as a one-off reward where accreditation had taken place.
- 3.5 The cost of accreditation varies depending on the size and sector of the business, but in 2015 the highest tier was £1,000 and the highest discount offered was therefore £5,000 at the time that Cabinet approved the existing scheme.

#### Progress to date

- 3.6 To date, there are 31 accredited organisations in the borough. Of those, 22 have taken up their business rates discount, to a total value of **£10,590**.
- 3.7 Of the London boroughs, Brent has the twelfth-highest number of accredited businesses in London, and the second-highest number of accredited businesses in Outer London. It has the highest number of accredited businesses in West London.
- 3.8 A full list of accredited organisations and the value of their rates discount can be found in Appendix B. A full list of all London boroughs and the number of their accredited businesses can be found in Appendix C.

#### Details of the rates relief package

- 3.9 The rates relief package currently follows the current criteria and process:
- The rates relief package is a one-off discount to incentivise more businesses to proceed with the LLW accreditation process.
  - It is not intended to act as a long term benefit or a wage subsidy.
  - Rates relief is applied once the Foundation has verified a LLW employer's status, and the discounts are subsequently applied to the organisation's business rates.
  - Businesses who pay the LLW but are not accredited by the Foundation are not eligible for the council's discount scheme, due to the difficulty and expense of having to verify their status, monitor compliance, and the potential for inconsistency amongst those awarded rates relief.
  - These functions are all carried out by the Foundation as part of their due diligence before accreditation and on an ongoing basis thereafter. This is why the council will only award rates relief once the Foundation has verified the status of a given employer.
  - Accredited businesses who are not headquartered in Brent but have a branch or office space in the borough (e.g. Barclays bank or Work Rights Centre) are not eligible for the rates relief on their properties.
  - Previously, when a Brent-based business became accredited, the Foundation would pass their details to the council in order for officers to begin processing the discount. Now, due to GDPR, the Foundation is no longer able to pass the contact details of accredited employers to the council. If the council has not had prior contact or engagement with a particular employer who becomes accredited, officers will try to make contact independently in order to offer the incentives package. This may not be possible in all cases.

- 3.10 The Economic Development team have developed communications strategies to encourage the uptake of accredited London Living Wage employers in Brent since 2016.
- 3.11 To advertise and promote the scheme to date, the following action has been taken:
- The council writes annually to every business in the borough promoting the scheme and advising of the benefits of paying their employees the London Living Wage at the same time as their business rates bills are sent.
  - The scheme is publicised on the council website, as well as through the Brent Business Newsletter (quarterly email publication).
  - The Economic Development team have run sector-specific events promoting the London Living Wage.
  - Regulatory Services and Town Centre Managers have distributed leaflets about the business rates discount to local businesses.
  - The Employment, Skills and Enterprise team have spoken at registered housing providers forums to inform attendees of the scheme
  - The scheme has also been featured in the head teachers' bulletin various times between 2016-2018 – a publication that is received by all schools in the borough
  - Annual Living Wage Week events and promotion in November – engaging businesses from across the borough to celebrate the impact paying a Living Wage can have on employees and business resilience.

#### Next steps and continuation of the scheme until 2022

- 3.12 Cabinet needs to take a decision about whether or not to continue to offer rates relief for accredited businesses, and if so, whether to offer the discount on the same terms.
- 3.13 Low pay continues to be an issue in the borough, and continuing the rates relief scheme would meet the commitments contained within the 2018 local Labour Manifesto.<sup>2</sup>
- 3.14 There are, however, contextual changes that have occurred since the scheme was first launched in 2015 which must be considered in light of the current financial climate.

#### Contextual changes since 2015

- 3.15 As explained above, the cost of accreditation varies depending on the size and sector of the business. In 2018 the Foundation increased the cost of accreditation in each tier. Table 1 below shows the costs in 2015 and the current costs:

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<sup>2</sup> Brent Labour Manifesto 2018 states that the Brent Labour Administration will '*Press our partners and Brent-based employers to pay at least the London Living Wage, ensure equal pay for equal work, and demonstrate integrity in all aspects of their business*'.

Table 1

Organisation type	Size of organisation (no. of employees)	Annual charge 2015	Annual charge 2018
Private sector	≥ 501	£1,000	£3,000
	251 ≤ 500	£400	£480
	51 ≤ 250	£200	£240
	11 ≤ 50	£100	£120
	≤ 10	£50	£60
Charity and Public Sector	≥ 251	£400	£480
	51 ≤ 250	£200	£240
	11 ≤ 50	£100	£120
	≤ 10	£50	£60

This means that the maximum business rates discount that could be claimed increased from £5,000 to £15,000 in 2018 (5x the cost of accreditation).

- 3.16 Cabinet should be aware that since the council introduced the Rates Relief Scheme in 2015, none of the accredited businesses in Brent have fallen into the highest cost bracket and so the impact of the increase to the council in terms of an increased discount has thus far been negligible. It remains theoretically possible, however, for a large private sector business with 500+ employees headquartered in Brent to receive up to £15,000 of rates relief should they gain accreditation with the Foundation.
- 3.17 The impact of business rates devolution must also be considered. Whereas previously the local authority retained only 30% of local business rates income, this has now increased to 64% under the current devolution pilot. Any loss of rates income must be considered in this context.

3.18 In the budget on 29<sup>th</sup> October 2018 the Treasury announced that certain businesses with a rateable value of less than £51,000 would receive a one third reduction in their business rates. Any discount the council awards under this proposed scheme would be in addition to this.

### Options

3.19 Cabinet may choose not to renew the scheme, or to renew it whilst updating certain variables to reflect the above considerations and changing contexts.

**Option 1:** Retain the scheme exactly as it is, with business rates relief being offered at 5x the cost of accreditation. If the Foundation increases the cost of accreditation again, the council's liability will also rise accordingly.

**Option 2:** Retain the rates relief scheme at 5x the cost of accreditation but impose a maximum value of the relief – e.g. 5x the cost of accreditation up to a maximum of £15,000. If the Foundation increased their costs, an organisation would be entitled to rates relief worth 5x the cost of accreditation up to a maximum of £15,000. Smaller organisations subject to any future Foundation cost increases would therefore still benefit from the council's rate relief of 5x the cost of accreditation. Only the largest private companies with 300+ employees would be affected by the cap on the relief rate should the Foundation increase their costs again.

**Option 3:** Retain the rates relief scheme but at a lower value e.g. 3x the cost of accreditation. This will reduce loss of business rates income in the short term but if the Foundation increase their costs in the future the council will need to match the rise with an increased rise in its rates relief offer. The council must also consider to what extent the incentive for businesses still exists if a lower rate of discount is implemented.

**Option 4:** Do not renew the scheme. This would mean that the council would no longer offer a financial incentive to businesses who become accredited with the Living Wage Foundation.

3.20 Officer's recommendation is to implement Option 2. Option 2 provides the strongest incentive to businesses to pay the LLW whilst capping the financial risk to the council. Option 1 leaves the council open to a higher financial risk, Option 3 dilutes the incentive to an extent that it may no longer serve its purpose and Option 4 removes it altogether.

3.21 Cabinet should note that any of the above options would be complemented by a range of other promotional activity led by the Economic Development team in Employment, Skills, and Enterprise, e.g. bulletin updates to businesses, social media posts, and good news stories on accredited businesses.

### Exceptions

3.22 Some organisations will not be able to draw down any business rates relief despite being accredited with the Foundation. This could be for one of the following reasons:

- The organisation is not headquartered in Brent, rather it has only branches or an office base – e.g. Barclays, Ikea, or the Work Rights Centre.
- The organisation does not qualify due to state aid rules. Business rates relief counts as 'state aid'. Legally, organisations can only receive a fixed amount of state aid over a given time period. If the business rates relief the council is offering would result in them exceeding that amount, the organisation will not be able to draw down their discount despite being eligible in theory.

## 4.0 Financial implications

- 4.1 As detailed above, it is a requirement under section 47 of the Local Government Act 1988 that the Cabinet will need to consider whether the proposal regarding the discount in business rates as set out in this report is reasonable having regard to the interests of the council tax payers in the borough of Brent. This proposal will not impact on the level of council tax levied on council tax payers.
- 4.2 The principle financial implication is the loss of business rates income to the council. Since 2014 the council has awarded £10,590 in rates relief (see 3.6 above and Appendix B below). The council's loss of income until 2017 would have been 30% of the total rates relief awarded, and since the rates devolution pilot in 2017 this has increased to 64% (see 3.17 for more detail). **This means the council has lost approximately £4,700 in rates income since 2014.**
- 4.3 It is hard to estimate exactly how much income the council will lose because of the proposed scheme between 2019 and 2023. If current trends continue with only a slight increase in the number of accredited organisations, the council may award approximately £4,000 of rates relief per annum. This would equate to approximately **£2,500 of lost business rates income per annum.**
- 4.4 However, if a large company with 500+ employees that is headquartered in Brent were to become accredited, then the council would award a maximum rates relief of £15,000. The council's lost business rates income for a company of this size would equal approximately £9,600 (64% of £15,000) if the current rates devolution arrangements remain in place.
- 4.5 If this were to happen then the loss of business rates income would be significantly higher in the given year. As noted in 3.16, however, no company of this size has become accredited in the past four years since the scheme's inception and so this is considered a relatively low risk.
- 4.6 It must also be noted that the proposed scheme will support the levels of income amongst some of Brent's lowest-paid residents, allowing them to have more disposable income to spend in the local economy.

## 5.0 Legal implications

- 5.1 The liability for Business Rates is set out in the Local Government Finance Act 1988. Section 47 of the Local Government Finance Act 1988, as amended by section 69 of

the Localism Act 2011, gives local authorities the power to grant discretionary business rate relief subject to the condition that the local authority (in this case, the Cabinet) may only grant the relief if it is satisfied that it would be reasonable to do so having regard to the interests of council tax payers in its area. Therefore, the Cabinet will need to consider whether the proposal in relation to the business rate relief as set out in the recommendations in paragraph 2.1- 2.4 of this report is reasonable having regard to the interests of those persons who are liable to pay council tax that is set by Brent Council.

- 5.2 Entitlement to a local discount awarded is subject to State Aid de minimis limits. State Aid law is the means by which the European Union regulates state funded support to businesses. Providing discretionary relief to ratepayers is likely to amount to State Aid. However any local discount scheme will not breach the rules regarding State Aid where it is provided in accordance with the De Minimis Regulations (as set out in EU Commission Regulation 1407/2013) whereby an “undertaking” does not receive more than €200,000 of De Minimis aid in a three year period (consisting of the current financial year and the two previous financial years). Officers will need to familiarise themselves with the terms of this State Aid exemption when considering whether to award a discount, in particular the types of undertaking that are excluded from receiving De Minimis aid.

## **6.0 Equality implications**

- 6.1 Increasing earnings in Brent is a key priority and incentivising local organisations to become accredited with the Living Wage Foundation will have a direct impact on low-earning residents in the borough.
- 6.2 Under section 149 of the Equality Act 2010, the council has a duty when exercising its functions to have “due regard” to the need to eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act and advance equality of opportunity and foster good relations between persons who share a protected characteristic and persons who do not. This is the public sector equality duty. The protected characteristics are age, disability, gender reassignment, marriage and civic partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.”
- 6.3 Having due regard involves the need to enquire into whether and how a proposed decision disproportionately affects people with a protected characteristic and the need to consider taking steps to meet the needs of persons who share a protected characteristic that are different from the needs of persons who do not share it. This includes removing or minimising disadvantages suffered by persons who share a protected characteristic that are connected to that characteristic.
- 6.4 There is no prescribed manner in which the council must exercise its public sector equality duty but having an adequate evidence base for its decision is necessary. Cabinet is referred to the contents of this report for information. In particular, maintaining a discretionary discount scheme in Brent will incentivise local organisations to become accredited with the Living Wage Foundation and will have a direct impact on low-earning residents in the borough. Based on the businesses that have taken advantage of the discretionary scheme to date, the imposition of a



maximum cap as detailed in Option 2 is not considered likely to have a disproportionate adverse impact on persons with protected characteristics.

## **7.0 Resource implications**

7.1 The management and administration of the awards scheme will be managed within existing resource in Customer Services and Employment, Skills, and Enterprise.

### **Related Documents<sup>3</sup>:**

National Non-Domestic Rates (NNDR) – Discretionary Discount Scheme for Businesses accredited to Living Wage Foundation.

**Report sign off:**

**AMAR DAVE**

Strategic Director of Regeneration  
and Environment.

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<sup>3</sup> This paper can be downloaded at <http://democracy.brent.gov.uk/> by searching Committee Papers using keywords NNDR and LWF