



The transitional arrangements for the non-domestic
rating revaluation 2010 in England
Consultation paper



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Consultation paper

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Scope of the consultation

Topic of this consultation:	The transitional arrangements for the non-domestic rating revaluation 2010 in England. The background is explained from paragraph 2.
Scope of this consultation:	Views are invited on options for the 2010 transitional arrangements scheme.
Geographical scope:	The consultation applies for England only.
Impact Assessment:	A draft impact assessment is attached at Annex B.

Basic Information

To:	Interested groups including ratepayers, organisations representing ratepayers, local authorities and professional advisors.
Body/bodies responsible for the consultation:	The Department for Communities and Local Government.
Duration:	The consultation period is 8 July to 23 September.
Enquiries:	Contact details are provided in the “Help with queries” section at the back of the consultation document.
How to respond:	NDR2010.Revaluation@communities.gsi.gov.uk Department of Communities and Local Government Zone 5/C1 Eland House Bressenden Place London SW1E 5DU
Additional ways to become involved:	Officials in Communities and Local Government will continue to engage with stakeholders including business groups, the Local Government Association, the Institute of Revenues Rating and Valuation and the Royal Institution of Chartered Surveyors.
After the consultation:	A summary of responses to this consultation will be published within three months of the consultation closing at the address below: www.communities.gov.uk
Compliance with the code of practice on consultation:	This consultation adheres to the code of practice on consultation. However, ministers have approved an 11 week consultation period to ensure regulations implementing the transitional arrangements can be made by the end of December 2009 as required by statute.

Background

Getting to this stage:	The options in the consultation document are based upon an analysis of the 2010 revaluation. The methodology for developing the consultation document is explained at paragraphs 10 to 14.
Previous engagement:	Officials and ministers in Communities and Local Government have met a range of stakeholders to discuss the 2010 revaluation. Officials have also spoken at various events.

Introduction

1. The next business rates revaluation takes effect from 1 April 2010. The purpose of the revaluation is to maintain fairness by ensuring rateable values are based upon up to date rental values. The revaluation does not raise extra revenue but some rate bills will rise and some will fall. The Government will introduce transitional arrangements to phase in large changes in individual rate bills arising from the 2010 revaluation. This consultation paper considers the shape of those transitional arrangements.

Background

Non-domestic rates and the 2010 revaluation

2. Non-domestic rates are a tax paid by occupiers or, for empty properties, owners of most non-domestic properties. The rates bill is generally found by multiplying the rateable value of the property by the relevant multiplier although bills can also vary with rate relief and other adjustments¹. The multipliers are set by the Government² but rateable values are set independently by the Valuation Office Agency. Revaluation takes place every five years and the next full revaluation of all rateable values will take effect from 1 April 2010.
3. In principle, the amount of revenue collected in rates should not change, in real terms, because of the revaluation. Instead, the purpose of revaluation is to redistribute the rates burden having regard to the new values. To achieve this aim, the multiplier is rebased for the first year of the new rating list to account for any overall changes in total rateable value.
4. The provisional multipliers for 2010 will not be known until the autumn of 2009 but, based on the current revaluation results and ignoring inflation, we estimate that the small business multiplier for 2010-11 will be 41.3p. It is not yet possible to estimate the national non-domestic multiplier for 2010-11 but, as with previous years, it will be found by adding to the small business multiplier an amount to recover the cost of the small business rate relief scheme. In the previous two years this amount has been 0.4p.
5. Whilst the revaluation does not raise extra revenue, some areas become more in demand, and so rental values rise, relative to the national average; demand falls in other areas, with rental values decreasing, relative to the national average. Based on current revaluation results, the effects of the revaluation on regions and sectors are shown below³.

¹ There are two multipliers. For 2009-10, the multiplier for qualifying small businesses is 48.1p and for all other properties it is 48.5p.

² The multipliers are determined in accordance with the formulae in Schedule 7 to the Local Government Finance Act 1988.

³ The tables show a very slight fall in overall revenue. This is due to rounding of the multiplier.

Table 1: Regional effect of 2010 revaluation (before transitional arrangements, inflation and other reliefs)

Region	Heraditaments	Bill before reval	Bill after reval	Difference	% change
London	280,200	£5,765,000,000	£6,330,000,000	£565,000,000	10%
South West	187,800	£1,790,000,000	£1,840,000,000	£50,000,000	3%
Central List	96	£1,125,000,000	£1,155,000,000	£30,000,000	3%
North East	75,500	£835,000,000	£825,000,000	-£10,000,000	-1%
Yorkshire & Humber	174,500	£1,885,000,000	£1,860,000,000	-£25,000,000	-1%
North West	239,300	£2,655,000,000	£2,590,000,000	-£65,000,000	-2%
East of England	180,800	£2,245,000,000	£2,180,000,000	-£65,000,000	-3%
South East	249,400	£3,530,000,000	£3,345,000,000	-£185,000,000	-5%
West Midlands	182,400	£2,070,000,000	£1,930,000,000	-£140,000,000	-7%
East Midlands	136,300	£1,555,000,000	£1,395,000,000	-£160,000,000	-10%
Total	1,706,200	£23,450,000,000	£23,445,000,000	-£5,000,000	0%

Table 2: sector effect of the 2010 revaluation (before transitional arrangements, inflation and other reliefs)⁴

Region	Heraditaments	Bill before reval	Bill after reval	Difference	% change
Offices	307,000	£5,045,000,000	£5,280,000,000	£235,000,000	5%
Central List	96	£1,125,000,000	£1,155,000,000	£30,000,000	3%
All Others	507,100	£6,465,000,000	£6,620,000,000	£155,000,000	2%
Retail	475,700	£5,805,000,000	£5,835,000,000	£30,000,000	1%
Industry	416,400	£5,005,000,000	£4,555,000,000	-£450,000,000	-9%
Total	1,706,200	£23,450,000,000	£23,445,000,000	-£5,000,000	0%

6. These tables illustrate the broad effects of the revaluation before inflation and before the transitional arrangements. Within each of these regions and sectors there will be some individual rate bills which rise and others which fall.

Transitional arrangements

7. At each revaluation since 1990, the Government has introduced transitional arrangements to phase in large changes in individual rate bills arising from the revaluation. Since 2003, the Government has been required by statute to introduce transitional arrangements and have the objective of ensuring that those transitional arrangements are self financing⁵. In practice, this means that the cost of providing transitional relief to ratepayers facing an increase in their rates bill has to be financed from other ratepayers.
8. At previous revaluations the Government have provided transitional relief through annual caps on increases. Different caps have applied for small and large properties. This relief has been funded by phasing in reductions in individual rate bills through caps on annual reductions. Therefore, those who have benefited from the revaluation have contributed to the cost of relief for those who have faced increases.

⁴ The central list contains network properties such as the electricity and water supply networks.

⁵ Section 57A(1) and (10) of the Local Government Finance Act 1988.

Proposal

9. This consultation paper examines how to introduce transitional arrangements for the 2010 rating list. The options under consideration are:

- option 1: annual caps on both increases and reductions over four years with different caps for small and large properties
- option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills
- option 3: annual caps on both increases and reductions over five years with different caps for small and large properties and
- option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills

10. These options are summarised in the following tables:

Table 3: Options 1 and 2 (real terms)						
		2010-11	2011-12	2012-13	2013-14	2014-15
Options 1 and 2	upward cap (small properties)	5%	7.5%	10%	15%	n/a
	upward cap (large properties)	12.5%	17.5%	20%	25%	n/a
Option 1	downward cap (small properties)	20%	30%	35%	55%	n/a
	downward cap (large properties)	4.6%	6.7%	7%	13%	n/a
Option 2	Supplement on other rate bills	2.7p	1.1p	0.4p	0.1p	n/a

Table 4: Options 3 and 4 (real terms)						
		2010-11	2011-12	2012-13	2013-14	2014-15
Options 3 and 4	upward cap (small properties)	5%	7.5%	10%	15%	15%
	upward cap (large properties)	12.5%	17.5%	20%	25%	25%
Option 3	downward cap (small properties)	20%	30%	35%	55%	55%
	downward cap (large properties)	4.6%	6.7%	7%	13%	13%
Option 4	Supplement on other rate bills	2.7p	1.1p	0.4p	0.1p	0.05p

11. Detailed consideration of these options is contained in the associated Impact Assessment which is attached at Annex B.

The level of protection for ratepayers facing increases in bills.

12. Overall, the 2010 revaluation will result in more ratepayers seeing reductions in bills (60 per cent of ratepayers) than increases (40 per cent of ratepayers). Nevertheless, some ratepayers will see increases and the purpose of the transitional relief (i.e. the caps on increases in bills) is to protect those ratepayers from significant increases in their rates bills which arise from the revaluation.

13. The transitional arrangements on the 2005 rating list offered greater protection to small properties with rateable values below £21,500 in Greater London or £15,000 elsewhere. The Government proposes to retain these arrangements and increase the thresholds in line with the overall revaluation effect on rateable value. Therefore, the thresholds for 2010 will be £25,500 in Greater London and £18,000 elsewhere.

14. The Government recognises that small businesses require support with their business rates bill. The small business rate relief scheme provides up to 50 per cent rate relief for qualifying small businesses but the Government believes that, as with previous schemes, small properties should also receive greater protection from increases arising from the revaluation. Small businesses are not as well placed as others to accommodate changing costs and need more time to adjust. Therefore, all the options under consideration include a small properties band and retain the same caps on increases for small properties as in the 2005 list. These are:

Table 5: Caps on increases (small properties) (real terms)				
	2010-11	2011-12	2012-13	2013-14
Cap on increase	5%	7.5%	10%	15%

15. Options 3 and 4 also provide a fifth year of protection at a further 15 per cent cap on increases for small properties. Under all options, 366,500 small properties would benefit from transitional relief in year 1. A further 893,900 small properties would see either reductions or increases less than 5 per cent.
16. All options also retain the same caps on increases from the 2005 list for large properties. This would ensure that large ratepayers facing increases would also receive the same degree of protection as was available in 2005. These caps on increases are:

Table 6: Caps on increases (large properties) (real terms)				
	2010-11	2011-12	2012-13	2013-14
Cap on increase	12.5%	17.5%	20%	25%

17. Options 3 and 4 also provide a fifth year of protection at a further 25 per cent cap on increases for large properties.
18. The combined cost of these caps on increases and reductions is £2.03bn over four years (options 1 and 2) or £2.06bn over five years (options 3 and 4).

Question 1: having regard to the cost of the transitional relief, do you think the caps on increases for small properties adopted at the 2005 revaluation should be repeated for the 2010 revaluation?

Question 2: having regard to the cost of the transitional relief, do you think the caps on increases for large properties adopted at the 2005 revaluation should be repeated for the 2010 revaluation?

The duration of the scheme

19. Options 1 and 2 are schemes covering the four years up to 31 March 2014. Thereafter, those ratepayers who are still receiving transitional relief will move to their full bill. We estimate that the number of ratepayers affected in 2014-15 and the average increase in rates bill in 2014-15 would be:

Table 7: Properties falling out of transitional relief in 2014-15		
	number of properties affected	average real increase 2013-14 to 2014-15⁶
Options 1 and 2	70,900	20%

⁶ Rates bill may also change between 2013-14 and 2014-15 for inflation and variations in other reliefs.

- 20. Options 1 and 2 would ensure that, at some point during the life of the 2010 rating lists, all ratepayers would be paying a rates bill based upon their 2010 rateable value (before other relief such as small business rate relief). This would replicate the length of transition scheme from the 2005 rating list (where transitional relief ended on 1 April 2009).
- 21. The disadvantage of options 1 and 2 is that some ratepayers will see large increases in their rates bills in 2014-15. Whilst it may be argued that these ratepayers will have four years to plan for these increases, the majority will be small businesses who are less likely to have the flexibility to plan for such increases. When transitional relief on the 2005 rating list ended on 1 April 2009, many businesses still faced large increases to their full bill. The Government has announced that it will allow those ratepayers to defer 60 per cent of their increase in 2009-10 into 2010-11 and 2011-12.
- 22. Options 3 and 4 examine an alternative of a five year scheme as shown below:

Table 8: Caps on increases Options 3 and 4 (real terms)

	2010-11	2011-12	2012-13	2013-14	2014-15
Cap on increase (small properties)	5%	7.5%	10%	15%	15%
Cap on increase (large properties)	12.5%	17.5%	20%	25%	25%

- 23. There will be about 33,700 ratepayers who would stay in transitional relief for all five years and, therefore, never pay a rates bill based solely upon their 2010 rateable value on these options. Nevertheless, those ratepayers would have faced cumulative increases of 64 per cent (small properties) and 147 per cent (large properties) over the five years of the rating list.

Question 3: do you think that transitional relief should be provided over four years (options 1 and 2) or 5 years (options 3 and 4)?

Funding the transitional relief

- 24. The Government are required by statute to ensure, as far as it is practicable, that the scheme is self financing. In other words, the transitional relief must be funded from other ratepayers. There are 2 methods of recovering the cost of transitional relief:
 - by phasing in reductions in rate bills arising from the revaluation through caps on annual reductions (the method adopted since 1990) or
 - by levying a supplement on ratepayers not receiving transitional relief

25. Options 1 and 3 use downwards caps to pay for transitional relief and options 2 and 4 use a supplement.

Downward caps

26. The downward caps required to fund the transitional relief in options 1 and 3 are set out below.

Table 9: Downward caps options 1 and 3						
Option	Property size	2010-11	2011-12	2012-13	2013-14	2014-15
Option 1	Small	20%	30%	35%	55%	n/a
	Large	4.6%	6.7%	7%	13%	n/a
Option 3	Small	20%	30%	35%	55%	55%
	Large	4.6%	6.7%	7%	13%	13%

27. The advantage of downward caps is that it ensures that the cost of providing transitional relief to those most affected by the 2010 revaluation is met by those ratepayers who benefit most from the 2010 revaluation. It is also a system which is familiar to billing authorities and practitioners and, therefore, easy to implement.
28. However, the drawbacks of downward caps are that the cost is recovered from a smaller number of ratepayers and to fund the schemes the reductions from downward caps on large businesses have to be limited in the early years. This means that those whose rateable values have fallen significantly at the revaluation, perhaps because the property market in which they operate has also fallen, would have to wait to receive the benefit of the revaluation.

Supplement

29. The supplements required to fund the transitional relief in options 2 and 4 are set out below.

Table 10: Supplement on all other ratepayers required to fund transitional relief		
	Option 2	Option 4
2010-11	2.7p	2.7p
2011-12	1.1p	1.1p
2012-13	0.4p	0.4p
2013-14	0.1p	0.1p
2014-15	n/a	0.05p

30. The supplements shown are to ensure the scheme is self financing within each year. They are not cumulative so the supplement would fall after the first year. An alternative approach, which is allowed by the primary legislation, is for the transitional arrangements to be self financing over the life of the scheme but not necessarily within each year. This would allow for an equivalent but constant supplement to be applied to bills for the duration of the scheme. In the case of option 2, such a constant supplement would equate to 1p and would apply for all four years. However, the constant supplement would generate a funding deficit in the early years and then a surplus in later years. In the case of option 2, we estimate the deficit in 2010-11 produced by a constant supplement would be £735m.
31. The Government does not believe that the Exchequer or the general taxpayer should fund such a deficit in the short term. To do so would benefit those ratepayers seeing the greatest reductions at revaluation and deflect finance in the short term from more deserving causes. Therefore, the constant supplement has not been included in the considerations.
32. The advantages of a supplement are:
- it ensures that those ratepayers seeing the greatest reductions, perhaps because the property market in which they operate has fallen, will receive most of the benefit without delay
33. The drawbacks of a supplement are:
- the method of funding the relief is untargeted. All ratepayers who are below the caps on increases make the same contribution to the cost of the transitional relief, based on their rateable value, irrespective of whether they have seen a large reduction in their bill
 - it would be a departure from a widely recognised and generally accepted system of transitional arrangements which has existed since 1990 and
 - it would add new complexity to the system. At the margins of the cap on increases, ratepayers will have their increase in bills brought up to the cap by the supplement. This in turn adds to the cost of relief and reduces the number of ratepayers paying the full supplement

Question 4: do you think the transitional relief should be funded by downward caps on reductions in bills (options 1 and 3) or by a supplement levied on other ratepayers (options 2 and 4)?

The Government's preferred option

34. Discussions with stakeholders also suggest that it would be helpful for ratepayers if the Government indicated their preferred option at the consultation stage as this would assist with business planning. The Government can see merit in this but their preferred position set out below is based upon the considerations in this consultation paper and associated Impact Assessment. It will be revisited in light of responses to the consultation and any new information on the revaluation.
35. Based upon their current considerations, the Government's preference is for Option 3. This is because:
- it ensures that funding the cost of the transitional relief is targeted at those who have benefited most from the revaluation. This is fairer than the supplement options (2 and 4) where all ratepayers would make the same contribution based on their rateable value irrespective of how their own rates bill has changed due to the revaluation and
 - it ensures that no ratepayers would face very large increases in 2014-15. Under the 4 year schemes (options 1 and 2), many ratepayers would still see a large increase in their rates bill in 2014-15. Many of those would be small properties. Option 3 ensures that ratepayers will receive protection from large increases throughout the rating list. Whilst this will mean some ratepayers will not pay their rates bill without transition, the numbers are relatively low – only 36,800 would remain in either upward or downward transition in 2014-15 representing about 2.2 per cent of hereditaments

How to respond

36. Comments on the proposals in this consultation paper should be sent, preferably by email, to:

NDR2010.Revaluation@communities.gsi.gov.uk
Department of Communities and Local Government
Zone 5/C 1
Eland House
Bressenden Place
London
SW1E 5DU

37. Responses to this consultation must be received by 23 September 2009.
38. You may print copies of this document without seeking permission.

Confidentiality and data protection

39. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).
40. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.
41. The Department will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.
42. Confidential responses will nevertheless be included in any statistical summary of numbers of comments and views expressed, although individuals will not be identified.

Help with queries

If you have any queries or problems with submitting an online response or require a hard copy of this consultation document please contact:

Edward Stanislas
Business Rates and Valuation Division
Department for Communities and Local Government
Zone 5/C1, Eland House
Bressenden Place
London SW1E 5DU
or by email to edward.stanislas@communities.gsi.gov.uk

Questions about the policy issues raised in the document can be addressed to:

Nick Cooper
Business Rates and Valuation Division
Department for Communities and Local Government
Zone 5/C1, Eland House
Bressenden Place
London SW1E 5DU
or by e-mail to nick.cooper@communities.gsi.gov.uk.

If you have comments or complaints about the way this consultation has been conducted, these should be sent to:

CLG Consultation Co-ordinator
Department for Communities and Local Government
Zone 6/J10
Eland House
Bressenden Place
London SW1E 5DU
or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

A copy of the consultation criteria from the Code of Practice on Consultation is in Annex A.

Draft impact assessment

A draft impact assessment is attached at Annex B.

Annex A

The Consultation criteria

The Government has adopted a code of practice on consultations. The criteria below apply to all UK national public consultations on the basis of a document in electronic or printed form. They will often be relevant to other sorts of consultation.

Though they have no legal force, and cannot prevail over statutory or other mandatory external requirements (e.g. under European Community Law), they should otherwise generally be regarded as binding on UK departments and their agencies, unless Ministers conclude that exceptional circumstances require a departure.

- consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy
- be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses
- ensure that your consultation is clear, concise and widely accessible
- give feedback regarding the responses received and how the consultation process influenced the policy
- monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator
- ensure your consultation follows better regulation best practice, including carrying out an impact assessment if appropriate

The full consultation code may be viewed at www.cabinet-office.gov.uk/regulation/Consultation/Introduction.htm

Are you satisfied that this consultation has followed these criteria? If not, or you have any other observations about ways of improving the consultation process please contact

Communities and Local Government Consultation Co-ordinator,
Zone 6/J10,
Eland House,
London,
SW1E 5 DU
or by e-mail to:
consultationcoordinator@communities.gsi.gov.uk

Please note that responses to the consultation itself should be sent to the contact shown within the main body of the consultation.

Annex B

Summary: Intervention and Options		
Department /Agency:	Title: Impact assessment of options for the 2010 rating revaluation transitional arrangements scheme	
Stage: Consultation	Version: 1	Date:
Related Publications:		

Available to view or download at:

<http://www.communities.gov.uk>

Contact for enquiries: Nick Cooper

Telephone: 020-7944-8751

What is the problem under consideration? Why is government intervention necessary?

At each rating revaluation, all rateable values are reassessed using up to date rental values. This results in some ratepayers seeing increases in their full rates bill and others seeing reductions. Ratepayers have six months notice of these changes. Intervention is necessary if ratepayers are to be protected from large increases and have time to adjust to their new liability. This relief is funded from other ratepayers. There is currently a legal requirement to introduce transitional arrangements.

What are the policy objectives and the intended effects?

The objectives of the transitional arrangements are to provide relief for ratepayers facing large increases in bills as a result of the revaluation and to seek to ensure, as far as is practicable, that the scheme is self financing. The intended effect is that ratepayers facing large increases in liability will have sufficient time to adjust to their new bill.

What policy options have been considered? Please justify any preferred option.

- 1) Annual caps on both increases and reductions over four years, with different caps for small and large properties.
- 2) The same caps on increases but funded from a supplement on all other rate bills over four years.
- 3) Annual caps on both increases and reductions over five years, with different caps for small and large properties.
- 4) The same caps on increases but funded from a supplement on all other rate bills over five years.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The chosen scheme will be reviewed at the end of the 2010 rating list.

Ministerial Sign-off For final proposal/implementation stage impact assessments:

I have read the impact assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible minister:

Date:

Summary: Analysis and Evidence			
Policy Option: 1		Description: Transitional relief over four years using downward caps	
COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The transitional relief scheme is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by other ratepayers. Over the course of the proposed scheme the cost to ratepayers of relief is estimated at £1,990m present value. The number of hereditaments that face additional costs in the first year is 316,000; in the second year 156,000; in the third year 50,000 and the fourth year 10,000.
	One-off (Transition)	Yrs	
	£0		
	Average Annual Cost (excluding one-off)		
	£497.5m		Total Cost (PV) £1,990m
Other key non-monetised costs by 'main affected groups'			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Under the transitional relief scheme very large increases in rates bills are capped. The estimated present value of the reduction to the affected ratepayer's bills over the course of the scheme is around £1,990m. The number of hereditaments that have lower costs in the first year is 467,000; in the second year 294,000; in the third year 171,000 and the fourth year 71,000.
	One-off	Yrs	
	£0		
	Average Annual Benefit (excluding one-off)		
	£497.5m		Total Benefit (PV) £1,990m
Other key non-monetised benefits by 'main affected groups' As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.			

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £0	NET BENEFIT (NPV Best estimate) £0		
	4				
What is the geographic coverage of the policy/option?		England			
On what date will the policy be implemented?		1 April 2010			
Which organisation(s) will enforce the policy?		Billing authorities			
What is the total annual cost of enforcement for these organisations?		£0			
Does enforcement comply with Hampton principles?		Yes			
Will implementation go beyond minimum EU requirements?		No			
What is the value of the proposed offsetting measure per year?		£0			
What is the value of changes in greenhouse gas emissions?		£0			
Will the proposal have a significant impact on competition?		No			
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		N/A	N/A	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)			
Increase of £	Decrease of £	Net Impact £			
Key:	Annual costs and benefits: Constant Prices		(Net) Present Value		

Summary: Analysis and Evidence			
Policy Option: 2		Description: Transitional relief over four years using a supplement	
COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The transitional relief scheme is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by all other ratepayers. Over the course of the proposed scheme the cost to ratepayers of relief is estimated at £1,990m present value. The number of hereditaments that face additional costs in the first year is 1,240,000; 1,412,000 in the second; 1,526,000 in the third and 1,635,000 in the fourth.
	One-off (Transition)	Yrs	
	£0		
	Average Annual Cost (excluding one-off)		
	£497.5m		
		Total Cost (PV)	£1,990m
Other key non-monetised costs by 'main affected groups' There will be a slight increase in administrative costs as a result of changing to a system funded by a supplement for local authorities.			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Under the transitional relief scheme very large increases in rates bills are capped. The estimated present value of the reduction to the affected ratepayer's bills over the course of the scheme is around £1,990m. The number of hereditaments that have lower costs in the first year is 467,000; in the second year 294,000; in the third year 171,000 and the fourth year 71,000.
	One-off	Yrs	
	£0		
	Average Annual Benefit (excluding one-off)		
	£497.5m		
		Total Benefit (PV)	£1,990m
Other key non-monetised benefits by 'main affected groups' As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.			

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme.

Price Base Year 2010	Time Period Years 4	Net Benefit Range (NPV) £0	NET BENEFIT (NPV Best estimate) £0	
What is the geographic coverage of the policy/option?		England		
On what date will the policy be implemented?		1 April 2010		
Which organisation(s) will enforce the policy?		Billing authorities		
What is the total annual cost of enforcement for these organisations?		£0		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		No		
What is the value of the proposed offsetting measure per year?		£0		
What is the value of changes in greenhouse gas emissions?		£0		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)		
Increase of £	Decrease of £	Net Impact £		
Key:	Annual costs and benefits: Constant Prices		(Net) Present Value	

Summary: Analysis and Evidence			
Policy Option: 3		Description: Transitional relief over five years funded by downward caps.	
COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The transitional relief scheme is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by other ratepayers. Over the course of the proposed scheme the cost to ratepayers of funding relief is estimated to have a present value of around £2,015m. The number of hereditaments that face additional costs in the fifth year is 3,000. All other years are the same as the four year scheme.
	One-off (Transition)	Yrs	
	£0		
	Average Annual Cost (excluding one-off)		
	£403m		
		Total Cost (PV)	£2,015m
Other key non-monetised costs by 'main affected groups'			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Under the transitional relief scheme very large increases in rates bills are capped. This will reduce affected ratepayer's bills by an estimated £2,015m present value over the course of the scheme. The number of hereditaments that have lower costs in the fifth year is 34,000. All other years are the same as the four year scheme.
	One-off	Yrs	
	£0		
	Average Annual Benefit (excluding one-off)		
	£403m		
		Total Benefit (PV)	£2,015m
Other key non-monetised benefits by 'main affected groups' As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.			
Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme.			

Price Base Year	Time Period Years	Net Benefit Range (NPV) £0	NET BENEFIT (NPV Best estimate) £0			
What is the geographic coverage of the policy/option?		England				
On what date will the policy be implemented?		1 April 2010				
Which organisation(s) will enforce the policy?		Billing authorities				
What is the total annual cost of enforcement for these organisations?		£0				
Does enforcement comply with Hampton principles?		Yes				
Will implementation go beyond minimum EU requirements?		No				
What is the value of the proposed offsetting measure per year?		£0				
What is the value of changes in greenhouse gas emissions?		£0				
Will the proposal have a significant impact on competition?		No				
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large		
Are any of these organisations exempt?	N/A	N/A	N/A	N/A		
Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)				
Increase of £	Decrease of £	Net Impact £				
Key:	Annual costs and benefits: Constant Prices		(Net) Present Value			

Summary: Analysis and Evidence			
Policy Option: 4		Description: Transitional relief over five years funded by a supplement.	
COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The transitional relief scheme is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by all other ratepayers. Over the course of the proposed scheme the cost to ratepayers of funding relief is estimated to have a present value of around £2,015m. The number of hereditaments that face additional costs in the fifth year is 1,673,000. All other years are the same as option 2.
	One-off (Transition)	Yrs	
	£0		
	Average Annual Cost (excluding one-off)		
	£403m		
		Total Cost (PV)	£2,015m
Other key non-monetised costs by 'main affected groups' There will be a slight increase in administrative costs as a result of changing to a system funded by a supplement for local authorities.			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Under the transitional relief scheme very large increases in rates bills are capped. The estimated present value of the reduction to the affected ratepayer's bills over the course of the scheme is around £1,990m. The number of hereditaments that have lower costs in the first year is 467,000; in the second year 294,000; in the third year 171,000 and the fourth year 71,000.
	One-off	Yrs	
	£0		
	Average Annual Benefit (excluding one-off)		
	£403m		
		Total Benefit (PV)	£2,015m
Other key non-monetised benefits by 'main affected groups' As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.			

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme.

Price Base Year 2010	Time Period Years 5	Net Benefit Range (NPV) £0	NET BENEFIT (NPV Best estimate) £0	
What is the geographic coverage of the policy/option?		England		
On what date will the policy be implemented?		1 April 2010		
Which organisation(s) will enforce the policy?		Billing authorities		
What is the total annual cost of enforcement for these organisations?		£0		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		No		
What is the value of the proposed offsetting measure per year?		£0		
What is the value of changes in greenhouse gas emissions?		£0		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)		
Increase of £	Decrease of £	Net Impact £		
Key:	Annual costs and benefits: Constant Prices		(Net) Present Value	

Evidence Base (for summary sheets)

Background

1. Non-domestic rates are a tax on occupiers or, for empty property, owners of non-domestic property. The full bill is a product of the rateable value for the property and the relevant multiplier for the year.
2. Rateable values are, broadly speaking, based upon the rental value of the property and are assessed independently by the Valuation Office Agency. All rateable values are reassessed every five years at a general revaluation. The next revaluation will take effect from 1 April 2010 based upon values at 1 April 2008.
3. In principle, the amount of revenue collected in rates should not change, in real terms, because of the revaluation. Instead, the purpose of revaluation is to redistribute the rates burden having regard to the new values. To achieve this aim, the multiplier is rebased for the first year of the new rating list to account for any overall changes in total rateable value.
4. Nevertheless, within this overall picture there will be some ratepayers seeing increases in bills and some seeing reductions as a result of the revaluation.

Rationale for Government intervention

5. Since 1990, the Government in England has introduced transitional arrangements to phase in changes in bills arising from the revaluation. The rationale is that ratepayers, who are mostly businesses, need time to adjust to large changes in their rates bills. The objectives of the transitional arrangements are:
 - to provide relief for ratepayers facing large increases in bills as a result of the revaluation and
 - to seek to ensure, as far as is practicable, that the scheme is self financing¹ over the life of the list
6. Since 2003, transitional arrangements have been a statutory requirement. Therefore, the issue under consideration is not whether the Government should introduce transitional arrangements but how much transitional relief should be provided and how that should be funded. Nevertheless, to allow consistent analysis, all proposals are assessed against a do nothing scenario (to remove all transitional arrangements).
7. Modelling suggests that the transitional arrangements adopted for the 2005 revaluation would not be appropriate for application to the 2010 revaluation since the scheme would not be self financing over the life of the list.

¹ Self-financing means that any relief given to those in upwards transition should be funded by charging those ratepayers not in upwards transition.

8. Beyond those matters considered in the consultation exercise, the Government is not considering any changes to the detailed structure of the transitional arrangements. However, as explained in *Business Rates Supplements: a white paper*, October 2007 Cm 7230 paragraph 2.77, transitional relief will not be applied to any business rates supplement. Therefore, the regulations will be amended to provide that, where appropriate, the business rate supplement is added in full to the bill payable under the transitional arrangements.
9. In line with these principles, changes in the amount of other forms of rate relief awarded to ratepayers between 2009-10 and 2010-11 (such as changes in small business rate relief or relief from empty property rates), or amounts paid in 2010-11 and 2011-12 which have been deferred from 2009-10, will not fall within the transitional arrangements.

Modelling the options

10. In order to look into the different options for the new scheme, information on every hereditament² in England was provided by the Valuation Office Agency (VOA). This included the current rateable value (i.e. pre-revaluation) and the reassessed value for 1st April 2010 (i.e. post-revaluation) for each of the 1.7m hereditaments in England, as well as geographical and industrial sector information. Businesses were classified as small in 2005 if their rateable value fell underneath one of two thresholds, £21,500 in London or £15,000 elsewhere. These thresholds were uplifted in line with the general revaluation effect, the average increase in rateable values at a national level, to £18,000 and £25,500.
11. Using this information models were constructed to calculate current bills, future rates liabilities (the notional chargeable amount (NCA) in the 'do nothing' scenario) and the percentage change in bill at an individual hereditament level. These were aggregated by region, industry and business size as well as nationally, in order to compare the effects of different models with the 'do nothing' scenario. All the cost figures in this impact assessment come from our transitional relief model.
12. For each year of the scheme, and for each hereditament in the ratings list within each year, the calculation takes the following steps:
 - **calculate the base liability:** For the year 2010-11, the base liability (the bill paid in the previous year) is calculated. This is done by multiplying the 2005 rateable value by the 2009-10 small business multiplier
 - **calculate the notional chargeable amount (NCA):** this is the product of the 2010 rateable value and the small business multiplier for the appropriate year

² An hereditament is a rate-paying property.

- **calculate the year's bill:** for ratepayers in upwards transition, this is the lower of the NCA and the product of the base liability and the appropriate year's caps. For ratepayers in downwards transition, the bill is the higher of the NCA and the product of the base liability and the appropriate year's caps. The current year's bill will be the next year's base liability and
- **calculate transitional relief:** This is the difference between the bill and the NCA, which gives the cost of transition

13. There is however some uncertainty regarding these estimates. This stems from our imperfect knowledge of what will happen to the future number and size of hereditaments. For example, we cannot predict whether a particular hereditament paying into the transitional relief scheme will be demolished and thereby ending their contribution to the scheme.
14. The upwards caps were chosen so as to give the same level of protection from bill increases as was offered under the 2005 transitional relief scheme. Given these upward caps, we used the model to calculate either downward caps or a supplement that would ensure the scheme was self-financing.

The effect of the 2010 revaluation

15. In the normal case, the rates bill is found by the product of the rateable value and the relevant multiplier. The provisional multipliers for 2010 will not be known until the autumn of 2009 but, based on the current revaluation results and ignoring inflation, we estimate that the small business multiplier for 2010-11 will be 41.3p. It is not yet possible to estimate the national non-domestic multiplier for 2010-11 but, as with previous years, it will be found by adding to the small business multiplier an amount to recover the cost of the small business rate relief scheme. In the previous two years this amount has been 0.4p.
16. Based on the latest results, the effect of the 2010 revaluation (before transitional arrangements) by region and sector is shown below.

Table 1: Regional effect of 2010 revaluation (before transitional arrangements, inflation and other reliefs)

Region	Heraditaments	Bill before reval	Bill after reval	Difference	% change
London	280,200	£5,765,000,000	£6,330,000,000	£565,000,000	10%
South West	187,800	£1,790,000,000	£1,840,000,000	£50,000,000	3%
Central List	96	£1,125,000,000	£1,155,000,000	£30,000,000	3%
North East	75,500	£835,000,000	£825,000,000	-£10,000,000	-1%
Yorkshire & Humber	174,500	£1,885,000,000	£1,860,000,000	-£25,000,000	-1%
North West	239,300	£2,655,000,000	£2,590,000,000	-£65,000,000	-2%
East of England	180,800	£2,245,000,000	£2,180,000,000	-£65,000,000	-3%
South East	249,400	£3,530,000,000	£3,345,000,000	-£185,000,000	-5%
West Midlands	182,400	£2,070,000,000	£1,930,000,000	-£140,000,000	-7%
East Midlands	136,300	£1,555,000,000	£1,395,000,000	-£160,000,000	-10%
Total	1,706,200	£23,450,000,000	£23,445,000,000	-£5,000,000	0%

Table 2: sector effect of the 2010 revaluation (before transitional arrangements, inflation and other reliefs)³

Region	Heraditaments	Bill before reval	Bill after reval	Difference	% change
Offices	307,000	£5,045,000,000	£5,280,000,000	£235,000,000	5%
Central List	96	£1,125,000,000	£1,155,000,000	£30,000,000	3%
All Others	507,100	£6,465,000,000	£6,620,000,000	£155,000,000	2%
Retail	475,700	£5,805,000,000	£5,835,000,000	£30,000,000	1%
Industry	416,400	£5,005,000,000	£4,555,000,000	-£450,000,000	-9%
Total	1,706,200	£23,450,000,000	£23,445,000,000	-£5,000,000	0%

Options

17. With all of the options, whilst some ratepayers will see their bills increase and some fall, the impact on all ratepayers overall is intended to be neutral. This is because all the options are devised with the objective of being revenue neutral over the life of the rating list.
18. Four options have been considered for providing relief at the 2010 revaluation:
 - option 1: annual caps on both increases and reductions over four years with different caps for small and large properties
 - option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills
 - option 3: annual caps on both increases and reductions over five years with different caps for small and large properties and
 - option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills
19. Transitional relief moderates the effect of the revaluation. Therefore, there is a trade off between easing the burden of rapidly increasing bills on businesses (using transitional relief) and ensuring that up to date rateable values are reflected in rate bills (following revaluation).
20. The benefit of staggering large increases in rates bills over several years is that businesses have the time to plan and budget for their new liability. This reduces the risk of putting businesses into financial distress and possibly defaulting on their rates bill payments. The cost of providing this security falls to other ratepayers who do not face such large increases and in some cases this will partially offset the benefits resulting from revaluation.
21. The level of protection offered to ratepayers in upwards transition for the first four years (i.e. the percentage caps on increases) is the same as was offered in the 2005 transitional relief scheme for all of the options outlined below. The difference between these options is the method of funding the scheme and the duration of the transitional arrangements.

³ The central list contains network properties such as electricity and water supply networks

22. The caps and the associated costs for each year can be seen in the table below:

Table 3: Caps on increases in bills. All caps before inflation.				
	Cap on increases (small properties)	Cap on increases (large properties)	Cost of caps on increases (£ million)	Cost of caps on increases (£ million)
2010-11	5%	12.5%	1,155	1,155
2011-12	7.5%	17.5%	570	570
2012-13	10%	20%	235	235
2013-14	15%	25%	70	70
2014-15	15%	25%	30	30
4 year total (options 1 and 2)			2,030	2,030
5 year total (options 3 and 4)			2,060	2,060

23. The choice between using downward caps or a supplement will affect the number of ratepayers funding the scheme and the actual cost to individual hereditaments. The downward caps options transfer the cost to ratepayers with large bill decreases, leaving the majority of ratepayers to face their true liability from 2010-11. Conversely, the supplement would spread the cost across a greater number of ratepayers in proportion to their rateable value, in 2010-11. More detailed analysis of this issue can be found in the 'Impact on main affected groups' section of this impact assessment.

Option 1: annual caps on both increases and reductions over four years with different caps for small and large properties

24. At each revaluation, the relief has been funded, either in part or in whole, by placing percentage caps on those facing reductions in bills. However, the level of the caps varies for each revaluation. This is because the cost of transitional relief can vary considerably depending upon the shape of the revaluation.

25. For the 2010 revaluation, a transitional relief scheme based upon option 1 would have the following caps on increases and reductions:

Table 4: Option 1 caps on increases and reductions. All caps before inflation.				
	Cap on increases (small properties)	Cap on increases (large properties)	Cap on reductions (small properties)	Cap on reductions (large properties)
2010-11	5%	12.5%	20%	4.6%
2011-12	7.5%	17.5%	30%	6.7%
2012-13	10%	20%	35%	7.0%
2013-14	15%	25%	55%	13.0%

26. These caps have the objective of being self financing within each year, so the cost of protecting businesses in upward transition is met entirely by those businesses who would, in the do nothing scenario, see large reductions in their rates bills. The percentage of all ratepayers subject to these caps on increases and reductions is as follows:

Table 5: Option 1 percentage of all ratepayers with capped increases or reductions

	Cap on increases (small properties)	Cap on increases (large properties)	Cap on reductions (small properties)	Cap on reductions (large properties)	Not in Transition
2010-11	21.5%	5.9%	5.9%	12.6%	54.1%
2011-12	14.6%	2.6%	0.6%	8.6%	73.6%
2012-13	8.9%	1.1%	0.1%	2.8%	87.1%
2013-14	3.8%	0.3%	<0.1%	0.6%	95.2%

27. As can be seen from table 5, 4.1 per cent of all ratepayers (3.8 per cent small properties and 0.3 per cent large properties or around 70,900 properties combined) would still be benefiting from caps on increases in 2013-14. Those ratepayers would face an increase to their bill in 2014-15 of, on average, 20 per cent.
28. As can also be seen from table 5, 0.6 per cent of ratepayers (a very low number of small properties and 0.6 per cent large properties or around 10,400 properties combined) would still be subject to caps on reductions in 2013-14. Those ratepayers would see their bill fall in 2014-15 by, on average 14 per cent.
29. The benefits of option 1 are:
- businesses are offered protection against bill increases at the same level as the 2005 scheme. As with all options, 366,500 small properties would benefit from transitional relief in year 1
 - it ensures that the cost of providing relief to those most affected by the 2010 revaluation is met by those ratepayers who benefit most from the 2010 revaluation (by adopting caps on reductions in bills)
 - it ensures that all ratepayers pay their rates bill based on their rateable value (i.e. without transitional adjustment) for at least 1 year of the 2010 rating list and
 - it would be easy to implement. The transitional arrangements are implemented by billing authorities with support from software providers. These stakeholders are familiar with the existing system and have developed and tested systems to accurately calculate rates bills under the transitional arrangements. Option 1 would require little change to those systems

30. Transitional relief does involve some administrative costs when compared with the do nothing scenario, however there are no additional administrative costs associated with option 1 when compared to the current system.
31. There are also some possible drawbacks of option 1:
- some ratepayers (around 70,900) will see increases in their rates bills in 2014-15 (averaging about 20 per cent) and some of those will see increases much above that average. Whilst it may be argued that these ratepayers will have 4 years to plan for these increases, the majority will be small businesses who are less likely to have the flexibility to plan for such increases and
 - those whose rateable values have fallen significantly at the revaluation, perhaps because the property market in which they operate has also fallen, would have to wait to receive the full benefit of the revaluation reflected in their rates bills

Option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills

32. The cost of delivering the caps on increases in option 2 and the estimated supplement required on all other rate bills to fund that relief is shown in the following table.

Table 6: Option 2 caps on increases and supplement on all other rate bills. All caps before inflation.

	Cap on increases (small properties)	Cap on increases (large properties)	Supplement on all other ratepayers.
2010-11	5%	12.5%	2.7p
2011-12	7.5%	17.5%	1.1p
2012-13	10%	20%	0.4p
2013-14	15%	25%	0.1p

33. Option 2 is an alternative to option 1 in that the relief is funded by a supplement on the rate bill of all other ratepayers (i.e. those not subject to a cap on increases) rather than by capping reductions in bills. The supplements shown are to ensure the scheme is self financing within each year. They are not cumulative so the supplement would fall after the first year.
34. An alternative approach, which is allowed by the primary legislation, is for the transitional arrangements to be self financing over the life of the scheme but not necessarily within each year. This would allow for an equivalent but constant supplement to be applied to bills for the duration of the four year scheme. Such a constant supplement would equate to 1p and would apply for all four years. However, the constant supplement would generate a funding deficit in the early years and then a surplus in later years. We estimate the deficit in 2010-11 produced by a constant supplement would be £735m.

35. The Government does not believe that the Exchequer or the general taxpayer should fund such a deficit in the short term. To do so would help only those ratepayers who are seeing the greatest reductions at revaluation and deflect finance in the short term from more deserving causes. Therefore, the constant supplement has not been included in the considerations.

36. The benefits of option 2 are that:

- as with all options, it offers the same degree of protection as the 2005 scheme
- it ensures that all ratepayers pay their rates bill based on their rateable value (i.e. without transitional adjustment) for at least 1 year of the 2010 rating list and
- for those ratepayers seeing reductions in rateable value, perhaps because the property market in which they operate has fallen, the benefits will be reflected in their rates bill immediately.

37. The drawbacks of option 2 are:

- as with option 1, some ratepayers will see large increases in their rates bills in 2014-15
- the method of funding the relief is untargeted. All ratepayers who are below the caps on increases make the same contribution to the cost of the transitional relief, based on their rateable value, irrespective of whether they have seen a large reduction in their bill
- it would be a departure from a widely recognised and generally accepted system of transitional arrangements which has existing since 1990
- it would potentially add new complexity to the system. If at the margins of the cap on increases, ratepayers have their increase in bills brought up to the cap by the supplement. This will add to the cost of relief and reduce the number of ratepayers paying the full supplement. Otherwise, some ratepayers may face increases above the cap once the supplement has been added to their bill and
- in 2010-11, it would result in more ratepayers seeing their bill increase compared to seeing no change or a small decrease in their bill under option 1

38. The new administrative costs of option 2 compared to the current system are:

- in local government: a scheme under option 2 would require new software costs in 2009-10 and training costs to ensure staff in local government understood the operation of the supplement. There would be no additional costs in local government thereafter and
- in the private sector: the rating advisor profession also use software and trained staff to calculate transitional relief and advise their clients accordingly. There would be no further costs thereafter

39. These costs would depend upon the systems operated in each authority or private sector firm and their contractual arrangements with their software provider. In view of this uncertainty no attempt has been made to monetise these costs and it is not expected that they will be significant.
40. However, consultees are invited to suggest the any possible impact of this option on their administrative costs.

Option 3: annual caps on both increases and reductions over five years with different caps for small and large properties

41. Options 1 and 2 are five year schemes, which is the same length of scheme adopted for the 2005 revaluation. The 2005 transitional relief scheme ended on 1 April 2009 at which point several thousand ratepayers faced a jump to their full rates bill. The Government has announced that it will allow those ratepayers to defer 60 per cent of their increase in 2009-10 into 2010-11 and 2011-12.
42. Under options 1 and 2, around 70,900 ratepayers would see an increase in their rates in 2014-15 from the ending of transitional relief. The average increase would be 20 per cent but 20,100 ratepayers would see an increase greater than 25 per cent. Most of these would be small businesses.
43. Options 3 and 4 replicate options 1 and 2 for the first four years but ensure that transitional relief continues into 2014-15. For the 2010 revaluation, a transitional arrangements scheme based upon option 3 would have the following caps on increases and reductions:

Table 7: Option 3 caps on increases and reductions. All caps before inflation.

	Cap on increases (small properties)	Cap on increases (large properties)	Cap on reductions (small properties)	Cap on reductions (large properties)
2010-11	5%	12.5%	20%	4.6%
2011-12	7.5%	17.5%	30%	6.7%
2012-13	10%	20%	35%	7.0%
2013-14	15%	25%	55%	13.0%
2014-15	15%	25%	55%	13.0%

44. These caps have the objective of being self financing within each year. The percentage of all ratepayers subject to these caps on increases and reductions is as follows:

Table 8: Option 3 percentage of all ratepayers with capped increases or reductions

	Cap on increases (small properties)	Cap on increases (large properties)	Cap on reductions (small properties)	Cap on reductions (large properties)	Not in Transition
2010-11	21.5%	5.9%	5.9%	12.6%	54.1%
2011-12	14.6%	2.6%	0.6%	8.6%	73.6%
2012-13	8.9%	1.1%	0.1%	2.8%	87.1%
2013-14	3.8%	0.3%	0.1%	0.6%	95.2%
2014-15	1.8%	0.1%	0.1%	0.2%	97.8%

45. The benefits of option 3 are:
- it provides protection to those ratepayers still facing large increases in 2014-15
 - as with option 1, it ensures that the cost of providing relief to those most affected by the 2010 revaluation is met by those ratepayers who benefit most from the 2010 revaluation (by adopting caps on reductions in bills) and
 - as with option 1, it would be easy to implement. The transitional arrangements are implemented by billing authorities with support from software providers. These stakeholders are familiar with the existing system and have developed and tested systems to accurately calculate rates bills under the transitional arrangements. Option 3 would require little change to those systems
46. The drawbacks of option 3 are
- there will be some ratepayers (about 33,700) who would stay in transitional relief for all five years and, therefore, never pay a rates bill based solely upon their 2010 rateable value. Nevertheless, those ratepayers will still face cumulative increases of 64 per cent (small properties) and 147 per cent (large properties) over the 5 years of the rating list and
 - those whose rateable values have fallen significantly at the revaluation, perhaps because the property market in which they operate has also fallen, would have to wait to receive the full benefit of the revaluation and a small number (3,100) would stay in downward caps for the full five years
47. As with option 1, there are no new administrative costs associated with option 3 as it is assumed that no costs would arise from increasing the current four year system to a five year scheme.

Option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills

48. The cost of delivering the caps on increases in option 3 and the estimated supplement required on all other rate bills to fund that relief is shown in the following table.

Table 9: Option 4 caps on increases and supplement on all other rate bills. All caps are before inflation.

	Cap on increases (small properties)	Cap on increases (large properties)	Supplement on all other ratepayers.
2010-11	5%	12.5%	2.7p
2011-12	7.5%	17.5%	1.1p
2012-13	10%	20%	0.4p
2013-14	15%	25%	0.1p
2014-15	15%	25%	0.1p

49. Option 4 is an alternative to option 3 in that the relief is funded by a supplement on the rate bill of all other ratepayers (i.e. those not subject to a cap on increases) rather than by capping reductions in bills. As with option 2, the supplements shown are to ensure the scheme is self financing within each year. They are not cumulative so the supplement would fall after the first year.
50. For the reasons given in the analysis of option 2, the alternative of a constant supplement (which is self financing over the life of the scheme) has not been included in the considerations.
51. The benefits of option 4 are that:
- as with option 3, it provides protection to those ratepayers still facing large increases in 2014-15 and
 - for those ratepayers seeing reductions in rateable value, perhaps because the property market in which they operate has fallen, the benefits will be reflected in their rates bill immediately
52. The drawbacks of option 4 are:
- as with option 3, there will be some ratepayers who will stay in transitional relief for all five years and, therefore, never pay a rates bill based solely upon their 2010 rateable value

- as with option 2, the method of funding the relief is untargeted. All ratepayers who are below the caps on increases make the same contribution to the cost of the transitional relief, based on their rateable value, irrespective of whether they have seen a large reduction in their bill
- as with options 2, it would be a departure from a widely recognised and generally accepted system of transitional arrangements which has existing since 1990
- as with option 2, it would potentially add new complexity to the system. If at the margins of the cap on increases, ratepayers have their increase in bills brought up to the cap by the supplement. This will add to the cost of relief and reduce the number of ratepayers paying the full supplement. Otherwise, some ratepayers may face increases above the cap once the supplement has been added to their bill and
- in 2010-11, it would result in more ratepayers seeing their bill increase compared to seeing no change or a small decrease in their bill under option 3

53. The new administrative costs of option 4 are the same as option 2.

Impact on ‘main affected groups’

54. Following revaluation, the rebasing of the multiplier is used to keep the aggregate non-domestic rates bill constant in real terms. Without transitional relief, the ‘do nothing’ scenario, the cost is transferred between ratepayers in order to reflect the changes in their rateable value.
55. The four options detailed above are intended to minimise the impact of this on businesses by offsetting some of the cost being transferred. Given that all the options are intended to be revenue neutral the aggregate relief to businesses in upwards transition should, in principle, be met by the aggregate cost to those who fund it for all the options. Furthermore, since the caps on increases are the same across all the options for the first four years, the impact on those in upward transition will also be the same across those four years.
56. The effect of introducing a five year scheme will be to introduce additional benefits to those with the largest increases in rateable value following the revaluation. The choice between funding the relief using downward caps or a supplement will change the impact the scheme has on those businesses either not in transition or in downward transition.
57. The downward caps options transfer the cost to ratepayers with large bill decreases, around 316,400 ratepayers in 2010-11, leaving the majority of ratepayers, around 54 per cent to face their true liability from 2010-11. Conversely, the supplement would spread the cost across between around 1,239,600 ratepayers, in proportion to their rateable value, in 2010-11.

58. The impact this supplement has on specific ratepayers also depends on whether or not revenue neutrality is achieved in year or over the life of the scheme. Since in 2010-11 the cost of relief is at the highest level, whilst the number of ratepayers not in transition or downward transition i.e. the number funding the relief, is at its lowest level. This means if in year revenue neutrality is to be achieved the cost to those ratepayers will be higher than if the cost is spread across the life of the scheme.

Table 10 gives an indication of the numbers of ratepayers affected by the different options.

Table 10: Options 1 to 4						
		2010-11	2011-12	2012-13	2013-14	2014-15 (options 3and4 only)
All Options	upward cap (small properties)	366,500	249,200	151,900	65,300	31,500
	upward cap (large properties)	100,200	45,100	18,700	5,600	2,300
Options 1 and 3	downward cap (small properties)	100,700	9,900	1,600	300	200
	downward cap (large properties)	215,700	146,200	48,200	10,200	2,900
	not in transition	923,100	1,255,900	1,485,800	1,624,900	1,669,400
Options 2 and 4	Supplement on other rate bills	1,239,600	1,411,900	1,535,600	1,635,400	1,672,500

59. The tables below show the different impact of using caps or supplements by business size, region and industry type.
60. In all cases the supplement affects many more ratepayers than the caps, and the number affected increases over the years as the number of ratepayers falling out of upwards transition increases. This causes the average cost per hereditament of the supplement to fall year on year. The opposite is true of the caps; the cost here implies the decrease in bills that was not received by ratepayers who are subject to the downward caps. The average discount in rates bill that is not received due to downward caps, increases year on year.

Small properties:

Table 11: small properties, comparison of caps and supplements				
	Method of Funding:	Number of hereditaments funding transition:	Percentage of All Hereditaments:	Average cost per Hereditament:
2010-11	<i>Supplement</i>	893,856	52%	£172
	Cap	100,736	6%	£356
2011-12	<i>Supplement</i>	1,011,128	59%	£73
	Cap	9,870	1%	£483
2012-13	<i>Supplement</i>	1,108,406	65%	£28
	Cap	1,591	<1%	£679
2013-14	<i>Supplement</i>	1,195,006	70%	£8
	Cap	277	<1%	£835

*A small number of exceptional cases were removed for this analysis as they were clear outliers.

**Small properties refers to hereditaments with a 2010 RV of < £18,000 (£25,500 in London).

Large properties:

Table 12: large properties, comparison of caps and supplements				
	Method of Funding:	Number of hereditaments funding transition:	Percentage of All Hereditaments:	Average cost per Hereditament:
2010-11	<i>Supplement</i>	345,696	20%	£2,896
	Cap	215,723	13%	£5,178
2011-12	<i>Supplement</i>	400,857	23%	£1,239
	Cap	146,185	9%	£3,866
2012-13	<i>Supplement</i>	427,195	25%	£476
	Cap	48,249	3%	£4,809
2013-14	<i>Supplement</i>	440,350	26%	£143
	Cap	10,158	< 1%	£7,391

61. The options using a supplement place a greater burden of funding on small properties than using caps. Under all of the options however, the cost of transitional relief (which itself mainly comes from large properties) is also mainly met by large properties.

Regional:**Table 13:** regional comparison of caps and supplements

Region:	Net Cost over 4 years (£ million)	
	Caps	Supplements
Central List	£75	-£145
East of England	£70	£70
East Midlands	£185	£95
London	-£670	-£480
North East	£5	£25
North West	£35	£85
South East	£215	£150
South West	-£65	£5
West Midlands	£130	£135
Yorkshire and the Humber	£15	£60

62. The revaluation effect in London is far higher than any other region in the country. Consequently the majority of relief is going to London. Under the caps London's net benefit is higher across the years than under the supplement. The South West would also have a net gain from transitional relief overall under the cap, but not the supplement.

Industry:**Table 14:** sector comparison of caps and supplements

Industrial Sector	Net Cost over 4 years (£ million)	
	Caps	Supplements
Central list	£75	-£145
Industry	£445	£350
Offices	-£280	-£275
Other	-£235	-£150
Retail	-£5	£225

63. The use of a cap scheme would have benefits for the retail sector in comparison to the supplement. At the aggregate level caps would, over the four year period, cost the retail sector £220m less than the supplement. The sector as a whole would be a net beneficiary with caps, but a contributor with a supplement. The central list would be a net contributor with caps but a net beneficiary with supplements.

64. Industry is the biggest contributor to the transition scheme and caps would cost this sector £115m more than the supplement.

Interaction with the rates deferral scheme

65. The business rates deferral scheme will allow ratepayers to defer payment of 3 per cent of their 2009-10 bill. This is roughly equal to 60 per cent of the increase in the 2009-10 multiplier (that increase being 5 per cent). They will be able to pay half of the 3 per cent increase (i.e. 1.5 per cent) in addition to their bill in 2010-11 and the remaining half in 2011-12. Therefore, any ratepayer who takes the deferral will see the following underlying changes to their rates bill as a result of deferral⁴:
- a 2 per cent increase in 2009-10 (rather than the 5 per cent RPI increase)
 - a 4.5 per cent increase in 2010-11 (this comprises the 3 per cent increase in their liability which they did not pay in 2009-10 as a result of the deferral plus 1.5 per cent paying back half of the deferred amount from 2009-10)
 - no change in 2011-12 (because the remaining 1.5 per cent is repaid in that year) and
 - a 1.5 per cent reduction in 2012-13 (because the deferred amount has now been repaid)
66. These underlying effects are before inflation and changes to rateable values and will apply equally to ratepayers in transition as they do not affect the underlying rates liability on which transitional arrangements are based. Therefore, the modelling on which the consultation options for transitional arrangements is based, and which is set out in this impact assessment, does not take account of the interaction with the business rates deferral scheme.
67. For those ratepayers who have accepted a deferral of the increase in their rates in 2009-10 due to the ending of transitional relief then the impact in 2010-11 may be far greater depending upon the amount of deferral.

Key assumptions, sensitivities, risks

Rateable value thresholds for small and large properties

68. For the 2005 transitional arrangements, the thresholds between small and large properties were set at £21,500 rateable value in Greater London and £15,000 rateable value elsewhere. The Government proposed to increase these thresholds in line with the general movement of rateable value at the revaluation to £25,500 and £18,000. This has been reflected in the modelling.

⁴ These are in broad terms as the precise percentages will vary depending upon the size of the bill post 1 April 2010. These are underlying changes – they ignore inflation, changes to the multiplier or changes to the RV of the property.

Inflation

69. Inflation, based on the Retail Prices Index for September 2009, will be applied equally to all ratepayers in transition (because inflation will be applied to the caps on increases or reductions) and to all ratepayers outside transition (because the same figure for inflation will be used in calculating the final multipliers for 2010-11). Therefore, all analysis in this Impact Assessment ignores the effect of inflation. The estimated small business multiplier and the illustrated caps on increases and reductions are all shown before inflation.
70. This impact assessment is primarily based on modelling that was undertaken using data which could change (as the rating lists are maintained) and which cannot predict future changes such as appeals, deletions, splits and mergers with complete accuracy.

Specific impact tests*Competition*

71. We have applied the Office of Fair Trading's competition filter to determine whether the proposals raise any competition concerns. None of the options in this impact assessment will:
- directly limit the number or range of suppliers
 - indirectly limit the number or range of suppliers
 - limit the ability of suppliers to compete or
 - reduce suppliers' incentives to compete vigorously
72. The revaluation will redistribute the rates burden based upon new rateable values and it follows that some ratepayers will face increases and some reductions. In general, we can expect the effects of the revaluation to vary by location and class of property. However, to the extent that particular sectors or parts of particular sectors may be worse or better off following the revaluation, this would be the result of movements in the value of their property and not intervention by the Government. The options being considered in this paper would dampen such impacts. Therefore, no competition impacts have been identified as arising from these proposals.

Rural areas

73. Similar considerations to those of competition apply to rural areas. The revaluation may result in a shift in the rates burden between locations but, in a broad terms, a rural location will only see an increase in rates paid if the value of the non-domestic property in that location had risen in comparison to others. The options being considered in this impact assessment would provide relief to those facing significant increases.

Small firms

74. As discussed above, all of the options provide more relief to small business in the transitional arrangements.

Human rights

75. There are two provisions of the European Convention which could be relevant to the options set out in the consultation document – Article 1 of the First Protocol and Article 14.
76. Article 1 of the First Protocol provides that everyone is entitled to the peaceful enjoyment of his possessions, and may not be deprived of them except in the public interest and subject to the conditions provided for by law and by the general principles of international law. There is an exception for the right of the State to secure the payment of taxes and discretion for the State to impose taxes in the public interest. The Department is confident that the options published for consultation are justified as in the public interest and proportionate to the policy aims.
77. The second provision is Article 14 of the Convention which provides that the enjoyment of the rights and freedoms set out in the Convention shall be secured without any discrimination. This means that any differential treatment in terms of the right to peaceful enjoyment of property, protected by Article 1 of the First Protocol, including differential treatment for tax purposes, is in principle unlawful. The European Court has, however, consistently said that differential treatment is not unlawful provided that it is objectively and reasonably justified.

Other impact tests

78. No impacts have been identified as arising from these options as a result of:
- legal aid
 - sustainable development, carbon assessment and other environmental,
 - health
 - race, disability, gender and other equality

Implementation, enforcement and monitoring

79. The transitional arrangements are implemented by billing authorities who draw heavily upon the assistance of IT software companies. The majority of bills are calculated by computer using that software. Therefore, the majority of risks associated with implementation revolve around the accuracy of the software.

80. Billing authorities and the software companies have an excellent record of delivering accurate bills under the transitional arrangements but they require time to develop those systems and ensure they work. By retaining the same format of providing relief, the Government aims to minimise these risks because the billing authorities and software companies are already familiar with the format. The Government is working closely with these stakeholders throughout the 2010 revaluation.
81. The mechanism for implementing the transitional arrangements is contained in regulations which, but for the matters mentioned in this impact assessment, will remain largely unchanged for 2010. Billing authorities must use the regulations in calculating rate bills and failure to do so could be challenged as a breach of statutory duty.
82. The Government will monitor the cost of the transitional arrangements by gathering information from billing authorities annually.

Specific Impact Tests: Checklist		
Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes

Methodology

Introduction

1. This section presents a short summary of the design of the four options for the 2010 transition relief scheme introduced in the main section of this document.
2. Every five years, the rateable value of hereditaments is reassessed by the Valuation Office Agency (VOA). As a result of that revaluation, there are properties that face significant changes in their business rates bills, either increases or decreases. The transition relief scheme aims to provide businesses with protection against large increases that may arise from the each revaluation. The next revaluation will be effective on 1 April 2010.
3. The maintenance of the ratings list, i.e. the information on hereditaments including their rateable values, is the responsibility of the VOA. The list is continuously updated, as every day properties are demolished, new properties are added, or physical changes occur to properties which affect their rateable value. In addition, after new assessment of their rateable value (including revaluations), businesses are free to appeal, and the list is also updated to reflect this. As such, it is likely that two consecutive dates will not have the exact same ratings list.

Data and data validation

4. In order to look into the different options for the new scheme, information was provided by the Valuation Office Agency (VOA). This included the current rateable value (i.e. pre-revaluation) and the reassessed value for 1st April 2010 (i.e. post-revaluation) for each hereditament in England, as well as geographical and industrial sector information. Along with the hereditament information, the VOA supplied the Department for Communities and Local Government (CLG) with a summary table containing the revaluation effect (i.e. the ratio between the proposed and current rateable value) for a range of industrial sectors and the government office regions.
5. Furthermore, the list is divided in two sections. Hereditaments whose business rates bills are collected by billing authorities are placed in the local list. These account for most of the 1.7 million hereditaments in England. Hereditaments whose business rates bills are collected by CLG are placed in the central list. As of June 2009 there are just under 100 hereditaments on the central list.
6. The first step upon receiving the dataset from the VOA was to look for inconsistent observations, such as extreme increases or decreases, and to determine whether or not these were errors. This was done by reproducing the summary table provided by the VOA and identifying discrepancies or cases, if any, that may needed to be further explored. If required, further information would be requested from the VOA.

7. Once any discrepancies were resolved, the dataset was then used to determine the caps to present for consultation.
8. The fact that exact values of rateable value were used, allowed CLG to determine caps for small and large businesses separately, as it was possible to determine which business would fall under each of the categories.

Assumptions

9. In this section we list the assumptions made throughout the modelling process. The limitations are discussed in the next section.
 - **Thresholds** – There are two thresholds for small businesses. One is used throughout England except London, and one is used for London hereditaments. Currently these stand at £15,000 and £21,500 respectively. These thresholds need to be updated to take account of the average change in rateable value. The assumption is to increase them by the overall effect of the revaluation (currently 19 per cent). Therefore the new small business thresholds are £18,000 for England except London and £25,500 for London.
 - **Inflation** – The final scheme will use the September 2009 RPI figure. As this figure was not yet available, a 0 per cent inflation rate was assumed.
 - **Multiplier** – The small business multiplier is determined by a statutory formula, and is published annually by CLG. It is set in such way that NNDR yield after revaluation only changes by the rate of inflation. Since the inflation was set at 0 per cent, the multiplier for each of the five years of the scheme is calculated at 41.3p. In reality, please note that each year's multiplier will likely differ from the previous' year value due to inflation.
 - **Rate of appeals** – As described in paragraph 3 above, appeals are constantly being resolved. As there is still nearly a year in the current revaluation period before its end, this needs to be taken into account. Therefore there is a loss of appeals up to and including 31 March 2010, and one for the new revaluation cycle (1 April 2010 to 31 March 2015) on both the local and the central list. The effect of these assumptions is to reduce bills overall by about 2.5 per cent.
 - **Deletions** – Deletions from the list occur when hereditaments are destroyed (e.g. demolitions) or otherwise going through such changes that they are rendered unusable (e.g. large construction works). No deletions have been assumed for the modelling presented for consultation. The reason is that the impact of deletions is fairly unpredictable. It is not possible to know the pattern of deletions across the country.

- **Mergers and splits** – Mergers and splits occur, as the name indicates, when multiple hereditaments are merged into one (mergers) or when a single hereditament is divided into multiple ones (splits). No mergers or splits have been included in the modelling. Again, it is not possible to predict where or when mergers and splits occur. However, it should be noted that the regulations are such that the transitional adjustment continues after a split or a merger.

Limitations

10. The models presented in the consultation document and briefly discussed above have some limitations. Among these, it is important to reiterate that although the modelling is based on June 2009 data, the ratings list is being continuously updated to reflect appeals, but also deletions, mergers, splits, and the creation of new properties. Therefore it is not possible to forecast what will happen from the end of the modelling stage until the moment in April 2010 when the scheme becomes live, nor is it possible to predict what will happen after.
11. As discussed in paragraph 9 above, the modelling does not include any deletions (e.g. due to demolitions), splits or merges. The expected number of properties affected by these changes is relatively small, but nevertheless it will impact the final cost of the scheme.
12. It should be noted that the assumptions may not reflect the final values. Inflation will not likely be 0 per cent for the duration of the scheme, and therefore the multipliers will be different than the 41.3p listed above. However, inflation has a common impact on all rate bills and, therefore, has little impact on the cost of the transitional relief.
13. As part of the modelling process all appeals are settled prior to the calculating the transitional bills. This is done by reducing the rateable value of each property by the appropriate amount (described above). However, this does not happen in reality where appeals can take quite a considerable amount of time to be resolved. Therefore, the model is only expected to be revenue neutral once all appeals have been taken in consideration, at the end of the life of the scheme.

Algorithm

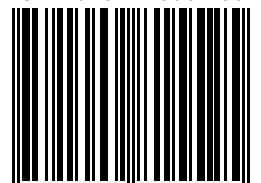
14. For each year of the scheme, and for each hereditament in the ratings list within each year, the calculation takes the following steps:
 - **calculate the base liability:** For the year 2010-11, the base liability (the bill paid in the previous year) is calculated. This is done by multiplying the 2005 rateable value by the 2009-10 small business multiplier
 - **calculate the notional chargeable amount (NCA):** this is the product of the 2010 rateable value and the small business multiplier for the appropriate year

- **calculate the year's bill (before any other reliefs):** for ratepayers in upwards transition, this is the lower of the NCA and the product of the base liability and the appropriate year's caps. For ratepayers in downwards transition, the bill is the higher of the NCA and the product of the base liability and the appropriate year's caps. The current year's bill will be the next year's base liability

calculate transitional relief: This is the difference between the bill and the NCA, which gives the cost of transition

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