Title: **Small Business Rate Relief Temporary Measure**	Impact Assessment (IA)
Lead department or agency: Communities and Local Government	**IA No:** CLG 0004
Other departments or agencies: HM Treasury	**Date:** 24/06/2010
	Stage: Enactment
	Source of intervention: Domestic
	Type of measure: Secondary legislation
	Contact for enquiries: David McDonald 0303 4442135

Summary: Intervention and Options

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

As the economy starts to recover, small businesses will play a central role in providing job opportunities and investment. Rent or commercial mortgage and rates form the most significant fixed costs to business operating out of commercial property. Reducing the burden of these fixed costs during the recovery will encourage growth and provide support to small businesses.

What are the policy objectives and the intended effects?

The policy objectives are to provide temporary help with business rates when small businesses need it most during the economic recovery. These businesses should be able to use their improved cashflow to help grow their businesses. This should also help protect existing businesses that might be struggling with relatively high occupation costs whilst experiencing low revenues due to the recession.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The policy options considered were:

Do nothing - keep the level of Small Business Rate Relief (SBRR) the same with 0% to 50% reduction in business rates bills for ratepayers meeting the eligibility criteria.

Option 1 – make current SBRR more generous for 12 months - This option considers making the current scheme twice as generous to properties meeting the existing criteria.

Option 1 was preferred as a method of supporting Small and Medium sized Enterprises (SMEs) during the economic recovery.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 2011-12
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Not applicable

SELECT SIGNATORY Sign-off For consultation 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 SELECT SIGNATORY:Bob Neill .... Date: 24th June 2010 ....

Summary: Analysis and Evidence

Policy Option 1

Description:

Price Base Year 2010	PV Base Year 2010	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: £0	High: £0	Best Estimate: £0

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low			Optional	£226.4m
High			Optional	£427.9m
Best Estimate				£334.6m

Description and scale of key monetised costs by 'main affected groups'

The cost of the relief is £755m, part of which (£370m) will be funded by ineligible businesses as in the 'do nothing' scenario via a supplement on the business rates multiplier of 0.7p in the pound. The additional cost would be funded by the Exchequer and after adjusting for increased corporation/income tax receipts would be £340m.

Other key non-monetised costs by 'main affected groups'

The Government has committed to fund the net additional costs to local government as a whole associated with implementing the scheme in accordance with the policy on new burdens. Additional costs will include such things as the distribution of a letter and fact sheet, software costs and the costs associated with re-billing. The Government is currently assessing costs and is liaising with the Local Government Association on this matter.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			Optional	£226.4m
High			Optional	£427.9m
Best Estimate				£334.6m

Description and scale of key monetised benefits by 'main affected groups'

Businesses occupying property that are eligible for SBRR will be entitled to twice the relief they could currently receive for one year, starting in October 2010. The additional relief will be between £0 and £1221 for eligible businesses, the aggregate benefit from reduced business rates bills will be £340m once the impact of bill reductions on corporation/income tax is accounted for.

Other key non-monetised benefits by 'main affected groups'

Around 350,000 hereditaments would have to pay no business rates for a year and a further 185,000 will see their SBRR increase. This will improve the cash flow situation of small businesses who typically devote a far higher proportion of their turnover to business rates than larger firms. This is expected to help support small firms through the economic recovery although the economic benefits of this measure have not been formally costed.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

a) the same proportion of businesses are eligible as was the case when the SBRR scheme was first introduced (58.7%); b) empty (ineligible) properties are distributed uniformly across the ratings list; c) the estimate of the number of eligible properties is greater than the numbers currently claiming SBRR, by assuming all eligible properties apply for the relief this is a top end estimate of the likely cost; d) the average rate of corporation/self assesment income tax paid by eligible small firms is 12%.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB:	AB savings:	Net:	Policy cost savings:	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England			
From what date will the policy be implemented?			01/10/2010			
Which organisation(s) will enforce the policy?			Local Authorities			
What is the annual change in enforcement cost (£m)?			None			
Does enforcement comply with Hampton principles?			Yes			
Does implementation go beyond minimum EU requirements?			N/A			
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A		**Non-traded:** N/A	
Does the proposal have an impact on competition?			Yes			
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** N/A		**Benefits:** N/A	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**	
Are any of these organisations exempt?	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No	

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	Impact	Page ref within IA
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	No	12
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	12
Small firms Small Firms Impact Test guidance	Yes	12
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	12
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	13
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	13
Human rights Human Rights Impact Test guidance	No	13
Justice system Justice Impact Test guidance	No	13
Rural proofing Rural Proofing Impact Test guidance	Yes	13
Sustainable development Sustainable Development Impact Test guidance	No	13

[1] Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	March 2010 Budget – chapter 4: http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/budget2010_documents.htm
2	Small business rate relief order (2004): Thttp://www.opsi.gov.uk/si/si2004/uksi_20043315_en.pdf
3	The Local Government finance act 1988: http://www.opsi.gov.uk/acts/acts1988/ukpga_19880041_en_5#pt3-pb1-l1g43
4	

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs										
Annual recurring cost	175	170	-5							
Total annual costs	175	170	-5							
Transition benefits										
Annual recurring benefits	175	170	-5							
Total annual benefits	175	170	-5							

* For non-monetised benefits please see summary pages and main evidence base section

Microsoft Office
Excel Worksheet

Evidence Base (for summary sheets)

1. Problem under consideration;

Small and medium sized businesses (as defined by BIS) account for 59.4% of private sector employment and 50.1%, of private sector turnover[2]. As the economy starts to recover, small businesses are expected to be at the heart of providing job opportunities and investment. Maintaining or improving the performance of these businesses will therefore be a significant step towards a successful recovery.

2. Rationale for intervention;

The rationale behind these measures is to help small businesses as the economy starts growing again. Although SBRR cannot be targeted specifically at new businesses, those businesses starting up or taking on small premises for the first time would benefit from not needing to pay business rates during a period where they may be struggling to make ends meet. Businesses already benefiting from SBRR would benefit from a further reduced tax bill, enabling them to invest more in their businesses to help them realise the opportunities afforded by economic growth.

Since small businesses are considered so important to the economic recovery, policies to ensure that they can survive and grow during difficult circumstances are in the national interest, provided they do not impose excessive costs on other areas of the economy. One limiting factor on the growth of small business is the additional cost of expanding either from the home into commercial property or into larger premises, due to increasing occupation costs.

The interim report from the Barker Review of Land Use Planning highlighted the fact that occupation costs in parts of the UK are some of the highest in the world[3].

The Lyons Inquiry[4] recognised that small businesses in particular tend to face a higher burden from business rates as a proportion of turnover than larger businesses stating that *"for most businesses, rates account for around three per cent of turnover, although this can…be much higher for small businesses"*. As such targeting small businesses through reliefs in the business rates system could be a progressive and effective way of supporting business during the recovery.

3. Policy objective;

The policy objectives are to provide temporary help with business rates when small businesses need it most during the economic recovery. These businesses should be able to use their improved cashflow to help grow their businesses with knock on effects for the local community by increasing employment and local investment.

4. Description of options considered (including do nothing);

The **'do nothing' option** would retain the status quo in which businesses that are eligible for small business rate relief (SBRR) have their business rates bills reduced by up to 50%. The eligibility criteria for SBRR are based upon rateable values, these are the valuations set by the Valuation Office Agency (VOA) on which business rates bills are calculated.

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[2] http://stats.berr.gov.uk/ed/sme/

[3] http://www.communities.gov.uk/planningandbuilding/planning/planningpolicyimplementation/reformplanningsystem/barkerreviewplanning/

[4] www.lyonsinquiry.org.uk

Ratepayers have to fulfil two eligibility criteria to receive SBRR:

- the sole or main property they are occupying must have a rateable value under the threshold for the relief which is £18 000 (or £25,500 in Greater London); **and**

- if they occupy any additional properties, each of the additional properties must have a rateable value of less than £2,600, and the total rateable value of all of the properties must be less than £18,000 (£25,500 in Greater London).

Properties meeting these criteria and with a rateable value of up to £6,000 have their bill calculated using the small business multiplier and receive 50% relief on their bill. Those with rateable values between £6,000 and £12,000 receive relief decreasing on a sliding scale equivalent to 1% for every £120 increase in rateable value. Eligible properties with rateable values over £12,000 have their bills calculated using the small business multiplier but receive no relief whilst all ineligible properties pay a supplement on the multiplier to fund the scheme.

Option 1 would keep the same eligibility criteria but double the amount of relief available to eligible ratepayers. This means that those with rateable values up to £6,000 receive 100% relief decreasing on a sliding scale equivalent to 1% for every £60 increase in rateable value to 0% at a rateable value of £12,000. Those with rateable values above £12,000 (and less than the upper threshold of £18,000 or £25,500 in London) still pay only the small business multiplier as in the ‘do nothing’ option.

5. Costs and benefits of each option;

The cost to the 1.1 million ineligible ratepayers in 2010-11 is 0.7p in each pound of rateable value under the ‘do nothing’ option, this has been set by the Secretary of State and will still be the case if Option 1 were implemented. The combined cost to ineligible ratepayers of paying the supplement is estimated to be £370m. Option 1 involves an additional cost to Government, as the relief available to eligible ratepayers would double, which is transferred to small businesses as a benefit; the business rates revenue forgone by Government stays in the hands of the businesses that would have had to pay higher bills in the ‘do nothing’ scenario.

The total level of business rates forgone by Government in Option 1 is estimated to be £390m. These costs are calculated using the business rates multiplier for 2010-11. This multiplier increases in line with the retail prices index from September of the previous year, so although half of these costs are incurred in 2011-12 they are all at current prices because the effect of inflation is implicitly accounted for by not adjusting the multiplier.

Business rates are deductible for corporation and self assessment income tax, this relief would increase the level of taxable profit/income made by the affected businesses. Not all businesses are liable to pay corporation tax, and it has been assumed that for every £100 extra relief, £60 would be taxed at 20% ie 40% of businesses would have no liability. This translates to an increase in corporation and income tax receipts by 12%. For companies 33% have no chargeable profits whereas for sole traders 45% of start-ups have profits less than £5k, taken as a proxy for zero liability once personal allowances are taken into account. From this it is estimated that around 40% of businesses (companies or self-employed) affected would have no liability. Therefore the total net additional cost to Government is £340m.

Table 1: Comparative cost of Option 1 best estimate and ‘do nothing’

	(£ million)			
	Cost of relief	Funded by ineligible businesses	Additional cost	Additional cost net of other taxes
Do Nothing	370	370	0	0
Option 1	755	370	390	340

Some of the increased tax liability would only be received by Government the year after accrual. Table 2 shows the yearly cost profile of this measure compared to the do nothing scenario both in terms of the business rates foregone and business rates net of other taxes.

Table 2: Yearly cost profile of Option 1

(£ million)		
Year	Business rates foregone	Business rates foregone net of other taxes
2010-11	195	175
2011-12	195	170
2012-13	0	-5
TOTAL:	390	340

Table 3: Range of costs based on sensitivity analysis of key assumptions

	Business Taxes offset level						
Percentage sole occupiers:	9%	10%	11%	12%	13%	14%	15%
50%	245	245	240	240	235	235	230
55%	310	305	300	300	295	290	290
58.7%	355	350	345	340	335	335	330
60%	370	365	360	355	355	350	345
65%	430	425	420	415	410	405	400

Table 3 shows the results of the sensitivity analysis described in the Methodology section of this Impact Assessment.

The tax benefits to small businesses are equal to the costs to Government. There are further benefits to the economy expected from the measure if it achieves the policy objectives in terms of jobs and economic growth. The policy aims to achieve this through improving the cash flow situation of businesses whose business rates remain fixed, regardless of the level of income or profit generated, during the economic recovery. This will aid start-ups or growing businesses by reducing the fixed costs associated with moving to business premises for the first time or to larger premises. It should also help protect existing businesses that might be struggling with relatively high occupation costs whilst experiencing low revenues due to the recession. These benefits have not been formally costed.

The Government has committed to fund the net additional costs to local government as a whole associated with implementing the scheme in accordance with the policy on new burdens. Additional costs will include such things as the distribution of a letter and fact sheet, software costs and the costs associated with re-billing. The Government is currently assessing costs and is liaising with the Local Government Association on this matter. The results of the new burdens assessment will be announced in due course.

6. Risks and assumptions;

For the purposes of SBRR businesses are defined on the basis of the rateable value of the property value they occupy. However, there are many enterprises in the UK that do not occupy rated property in order to run their business, self employed people who work from home being a good example of this. As such, enterprises and business properties are not directly comparable; however there are 1.7m hereditaments on the rating list compared with 4.8m enterprises as defined by BIS'[5] suggesting that many businesses will not necessarily be paying business rates. Those small businesses who do not or have no intention of occupying rated property will therefore not be affected by this policy.

It will however, reduce the start up costs to businesses occupying rated property for the first time, over the period in which the policy applies, lowering barriers to the growth of small businesses as well as providing support to small businesses that already occupy rated property. The risk is that the relief

[5] http://stats.berr.gov.uk/ed/sme/smestats2008.xls#Contents!A1

benefits businesses operating out of small (low value) properties rather than the small businesses that are the intended targets of the measure. Businesses with relatively high profits but operating out of property with a low rateable value may find that the reduction in business rates is too small to make a significant difference. If this occurs then some of the cost will be unproductive in that it is not actually achieving the policy aims and might be considered deadweight.

In order to overcome the deadweight problem it would probably be necessary to add additional criteria, such as level of turnover or number of employees, to the application process. The data required to do this automatically are not held alongside rateable values at present meaning this process would be both impractical and costly to implement. However, it does raise the case that the business rates system alone may not be the ideal way to support small businesses.

There is also evidence to suggest that reductions in rates will not necessarily benefit the occupier[6] as total occupation costs (consisting of rates, rents and running costs) are determined by the market demand, so all of this benefit will be capitalised into higher rents. Since the relief only targets small businesses and is limited to a single year, the upward pressure on rents should be lower than if it was a permanent change and applied to all possible market entrants. It is expected that in negotiating rents the time limit will be factored into the decision taken by occupiers as to how much rent they are willing to pay whilst many current occupiers will have fixed their rents for a period beyond that of the reduced rates bills.

A further consequence of the measure might be to encourage those ratepayers eligible for only a small amount of relief under the ‘do nothing’ scenario, who had previously not considered it worthwhile to complete the application form, to claim SBRR. These ratepayers would then continue to receive SBRR even after the relief has reverted to current levels in October 2011, at no additional administrative cost up until the time they no longer meet the eligibility criteria. Additionally, the increased publicity surrounding the measure may reach other eligible businesses that have previously missed the relief, and they too may apply.

Another advantage may be temporarily increasing relief through SBRR to support occupiers in the early stages of recovery it should also help landlords find tenants for empty properties before rates on low-value empty properties become due again on 1 April 2011.

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[6] Institute for Fiscal Studies, *The Relationship between Rates and Rents*, Department of the Environment, 1993

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added to provide further information about non-monetary costs and benefits from Specific Impact Tests, if relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review:

The review will focus will on the extent to which the extra relief provided the desired help, such as with cash flow, to small businesses.

Review objective:

The time limited nature of this measure means that any specific effects of the policy intervention will not be measurable until after the SBRR scheme has reverted to its current format in October 2011. The review will mainly provide an insight into whether or not the policy provided benefits to the extent that it would be considered good value for money and would be worth repeating under similar circumstances.

Review approach and rationale:

The approach to any review could be to monitor existing sources of data for changes in the activity of small businesses that can be explained by this policy. This means focussing on businesses that occupy commercial property with low rateable value, in order to establish who was benefiting, and on small businesses more generally to see how well the relief is being targeted. This method would require the use of relatively little resource, however it may prove difficult to match existing data on small businesses to those affected by the measure since the definition of a small business is in many cases different to that used in the SBRR eligibility criteria. Furthermore causality between the policy's introduction and any trends identified in these data would be very hard to establish.

As such the review will require some further research alongside this as to the extent to which the new measure has provided support to small businesses. The preferred method for doing this is to use focus groups within six months of the scheme's end date (31 September 2011) to discuss how successful the policy has been. Ratepayers, business groups and local authorities would all hold valuable, if subjective, information on the impact of increasing the level of SBRR.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

Statistics on the amount of SBRR claimed and the number of businesses claiming are collected by CLG through National Non-Domestic Rates forms which are filled in by local authorities annually and any change in these levels will be easily identifiable.

There are several other sources of Government data which can be used to provide insight into the present state of small businesses:

- The Household Survey of Entrepreneurship (BIS)*
- Annual small business survey (BIS)*
- Insolvency rate statistics (BIS) *
- VAT registrations/de-registrations (BIS/HMRC) *

Whilst these data may help provide an overview of the state of small businesses generally, it will be hard to disentangle the effect of this particular intervention from other factors affecting small businesses over such a short time period. Therefore the use of industry groups which are often able to provide their own research, alongside any evidence from the focus groups to complement these Government statistics will be important for comparison with this baseline.

*http://www.bis.gov.uk/publications

Success criteria: Whether the measure provided extra financial help to small businesses, particularly with their cash flow. As the measure is aimed at supporting small businesses through the economic recovery there may be few if any positive measures of success e.g. fewer businesses becoming insolvent or fewer empty properties may be indicators. The anecdotal evidence of small firms will help to gauge the success of the policy but there may be an incentive to overstate the benefits of the measure if it will increase the likelihood of further business rate reliefs. In order to avoid this influencing the results it will be necessary to carefully focus the discussion on gathering evidence about the effectiveness of the relief as objectively as possible.
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review] The National Non-Domestic Rates (NNDR) forms already record the amount of SBRR claimed and the number of businesses claiming SBRR and will formally record the cost of SBRR in terms of the business rates forgone by the Exchequer. The benefits can be estimated by: i) Using the focus groups to speak to billing authorities and ratepayers directly to see if at the time the measure was implemented there was an increase in applications for SBRR and whether the increased relief actually provided the help that it was intended to provide, particularly with their cash flow; ii) Using the NNDR forms to establish how much benefit was given in SBRR; iii) Monitoring of other measures of small business activity to examine if there were changes to trends in start-ups, the insolvency rate or small business confidence as compares to the baseline statistics discussed above, that could be attributed to the measure.
Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here] N/A

Background

The Small Business Rate Relief (SBRR) scheme was introduced in 2005 and addresses the disproportionate burden that business rates place on small businesses compared with larger concerns.

The current scheme gives relief of 50 per cent to eligible properties up to £6,000 rateable value with relief decreasing at the rate of around 1 per cent per £120 of rateable value up to 0 per cent at £12,000.

The scheme has a buffer zone for properties between £12,000 and £18,000 (or £25,500 within London) that meet the SBRR eligibility criteria. These ratepayers, after certifying they meet the eligibility criteria, do not have to contribute to the cost of the scheme.

The scheme is paid for by all businesses *not* receiving the relief, through a supplement on their rate bills.

Scotland, Wales and Northern Ireland have their own, separate business rate relief schemes for small businesses. The Government will fund the equivalent Barnett consequential spending for the devolved administrations, which will facilitate increased support for small businesses, however any changes are a matter from them.

Key assumptions, sensitivities & risks

London

The existing SBRR scheme treats properties up to £12,000 RV in London and outside London the same. The higher ceiling in London (£25,500 compared with £18,000 outside London) below which SBRR-eligible businesses pay the lower multiplier remains unchanged.

Therefore businesses in London occupying properties with rateable values below £12,000 will benefit equally to those outside the capital.

Methodology

The estimates were made using the local rating lists as at 01 April 2010 for England. The likely rates bills of hereditaments could be estimated using the rateable values found on these lists. On a subset of this list, representing SBRR eligible properties, the cost of relief was calculated using the formula laid out in legislation. The assumptions on which this analysis was based follow the methodology used in the CLG paper *Small business rate relief – improving evidence on eligibility and take-up*[7].

In order to identify which hereditaments should be on this shortened ratings list a number of steps were taken: the removal of types of property which are unlikely to be eligible for SBRR, such as ATMs, tolls and schools; removal of empty properties; and the removal of a further 41.3% of hereditaments to account for those that do not meet the sole occupancy eligibility criteria. This figure comes from an NOP poll from 2004 which found that 58.7% of businesses occupying properties below the rateable value threshold for the relief were eligible to receive it.

The removal of hereditaments from the rating list based on property type and rateable value is fairly well targeted since each entry on the rating list includes this information and as such these two steps can be taken with a fairly high degree of accuracy. Conversely, there is no information regarding which specific hereditaments are empty held on the rating lists. In order to account for this, hereditaments had to be removed from the list at random according to the number of hereditaments reported by local authorities to be empty. Therefore three iterations of this model were run to ensure that the process of randomly removing hereditaments did not have a significant effect on the results. After rounding the process of randomly removing hereditaments did not have an effect on the final cost of the model.

There is greater uncertainty surrounding the final stage of the analysis, mainly due to not holding data on the proportion below the SBRR threshold that are occupied by businesses that meet the eligibility criteria for additional property. In order to overcome this, an NOP survey commissioned by then-ODPM in 2004 to assess the impact of SBRR before its introduction, was used. On the basis that: this survey used statistically robust sampling techniques and was based on the SBRR eligibility criteria largely as they currently stand (albeit with lower thresholds), it was judged to provide the best assumption about the proportion of properties below the SBRR rateable value threshold that are occupied by eligible businesses rather than occupiers of multiple sites or chains.

Some sensitivity analysis was conducted to test the impact of changing the assumption of the proportion of businesses that meet the sole occupancy criteria. As stated above, the best estimate on the evidence available is that 58.7% of those beneath the thresholds that are not in the property types considered extremely unlikely to be eligible or empty will be sole occupiers. The model was run with four additional variations on this proportion between 50% and 65% eligibility. The sensitivity of the cost of the model to changes in the proportion of the business rates cost that will be offset by increased receipts in corporation and income taxes was also tested. The results of this sensitivity analysis have been used to form a likely cost range.

A comparison of the results created by this model with collected data on the amount of SBRR forecast to be provided in 2009-10 was used as a sense check. It was forecast that the total SBRR paid out in 2009-10 was £306m, therefore the best estimate of current cost, £370m was accepted as being reasonable. Particularly since the assumptions in this analysis have been made that 100% of relief is claimed under this measure, compared to an estimated 92% of relief which is currently claimed; and a larger number of hereditaments are eligible following changes to the SBRR thresholds and revaluation.

Equality

The initial screening test was completed and concluded that this policy would not require a full equality impact assessment.

[7] http://www.communities.gov.uk/publications/localgovernment/smallbusinessmethod

Competition Assessment

There are no changes to the criteria to qualify for small business rates relief. All small businesses who only occupy one small property with a rateable value below the threshold will benefit equally. However the SBRR policy does only affect those hereditaments beneath certain rateable value thresholds. This means that firms in the same market which occupy property with different rateable values will not be affected in the same way, giving a competitive advantage to businesses operating out of properties with low rateable value.

Small Firms Impact Test

The measure is aimed at small businesses. Those already in receipt of SBRR will benefit automatically from the increased levels of relief. As CLG is always promoting SBRR to those businesses who are not currently claiming the relief, it is hoped the increased publicity will encourage those businesses to claim. New claimants need only complete one application form which will last until such a time as they cease to be eligible.

The current economic climate makes it harder for property owners to re-let, re-develop or sell empty properties and the time limited increase in the threshold for liability to empty property rates is soon due to end. Temporarily increasing relief through SBRR supports occupiers in the early stages of recovery (applies 1 Oct 2010 – 30 Sep 2011) and should also help landlords find tenants for empty properties before rates on low-value empty properties become due again on 1 April 2011.

Greenhouse Gas Impact Assessment

There is no impact on greenhouse gas emissions from this measure as there are no changes to the criteria to qualify for small business rates relief.

Wider Environmental Impact Test

There is no impact on the wider environment from this measure as there are no changes to the criteria to qualify for small business rates relief.

Health and Well-Being

The initial screening test was completed and concluded that this policy would not require a fully health impact test as this policy does not have a significant impact on human health.

Human Rights

There are two provisions of the European Convention which could be relevant to the amendment to empty property rates - Article 1 of the First Protocol and Article 14.

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 amendment to the Small Business Rate Relief regulations is in the public interest and proportionate to the policy aims.

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.

Justice impact test

There is no impact on Justice from this measure as there are no changes to the criteria to qualify for small business rates relief. However, as many businesses will have 12 months free of business rates, the numbers of enforcement actions by local authorities should be reduced leading in turn to an easement on the Justice system.

Rural Proofing

The Commission for Rural Communities noted that several of the measures included in the 2010 Budget Statement should help rural economies, including the increase in small business rates relief and the range of initiatives to support start-up and existing businesses.

The measure is targeted on small businesses so will help those employed in rural areas. In 2006, more than 1 in 4 (26.8%) of employees in rural areas worked in small firms (employing less than 10 people) in less sparse villages, compared with only 11% of employed people in urban areas. [8]

Sustainable Development

There is no direct impact on Sustainable Development from this measure as there are no changes to the criteria to qualify for small business rates relief. However, as the aim of the relief is to help new and existing businesses grow, there should be indirect advantages to sustainable development as a result.

Implementation/Next Steps

The temporary scheme does not impose any new burdens on eligible businesses as it will be applied by local authorities to all currently eligible small businesses.

Local authorities have been supplied with the information to write to all businesses (whether or not eligible) with a rateable value below £12,000. The cost of this is being met through a New Burden payment. The publicity surrounding the measure may encourage those businesses who are eligible but who have not previously applied for the scheme, to apply.

Local authorities will update their billing software and issue new bills to affected ratepayers. New bills will take effect from 1 October 2010. The scheme reverts to current levels from 1 October 2011, which will be reflected in 2011-12 bills.

[8] *Commission for Rural Communities, State of the Countryside Report 2008*, p97