Localism Bill: discretionary Business Rate discounts

Impact assessment

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January 2011

Department for Communities and Local Government

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Title: Localism Bill: discretionary Business Rate discounts	Impact Assessment (IA)
Lead department or agency: Department for Communities and Local Government	**IA No:** DCLG 0049
Other departments or agencies:	**Date: January 2011**
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Tim Fairclough, Business Rates and Valuation Division, DCLG

Summary: Intervention and Options

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

Local authorities are better placed to understand the difficulties faced by households and businesses in their areas than central government and some interventions will be much better targeted if action is taken at different spatial levels. Local authorities do have some power to reduce the tax burden on non-domestic ratepayers, but that is limited in scope at present. By devolving power and adding greater flexibility into the business rate system it may be possible to tackle a broader range of problems with a single tool.

What are the policy objectives and the intended effects?

The policy forms part of the wider localism agenda which aims to give power back to communities and local bodies. The outcomes of policy decisions taken at this level are expected to match more closely the preferences of the individuals they will affect, improving the efficiency and fairness of the tax system. The more wide ranging the power given to local authorities, the greater their ability to use innovative approaches to deliver a wide range of policy objectives. Benefits: lowering business tax burden; positive effects on business cash flow, for further investment and/or employment; improving economic performance of an area; delivering on commitment to localism and promoting effective local authority/business relationships.

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

Do nothing - introduce no additional power to local authorities to grant discretionary business rate discounts. Option 1: introduce powers that give local authorities complete discretion over business rate discounts provided that they fund the cost of any discount themselves.

Option 1 is the preferred option. Since there would be no requirement on local authorities to provide discounts but simply a power to decide whether or not they did so, the extent of the costs and benefits is sensitive to the exact use of these powers. So headline costs and benefits cannot sensibly be provided in the summary boxes on the next page.

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 01/2015
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	No

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: Bob Neill .... Date: January 2011 ....

Summary: Analysis and Evidence — Policy Option 1

Description:

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

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

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

The costs would fall to local authorities that choose to offer discounts to businesses, as they would be required to fund the difference. These costs are likely to be transferred to residents, unless authorities were able to generate enough revenue from other sources of income to fund the discount. There would be administrative costs for local authorities as a result of calculating and issuing discounted bills. An illustrative scenario is discussed in the Evidence Base section below.

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

There is a risk that competition to encourage business growth between authorities would cause firms to move between local authorities in order to reduce their occupation costs. There would be additional costs associated with businesses relocating (recruitment, training, fees etc) that would not necessarily deliver any wider benefits, as relocation implies the offsetting of growth in one locality with an equivalent decline in another.

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

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

The benefits would, in the first instance, fall to businesses that were offered the discount by their local authority by reducing their occupancy costs. There is evidence to suggest that, over time, the benefits of reduced business rates may be received by landlords through higher rents. A proportion of the benefit to the businesses in receipt of a discount would be transferred to the Exchequer as a result of increased corporation or income tax revenue.

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

If businesses could be encouraged to start-up, expand or simply stay solvent as a result of a business rate discount, this would have spillover effects for the communities in which they operated, improving prospects for employment and growth.

Key assumptions/sensitivities/risks **Discount rate (**

The business rates discount proposals enable a wide range of possibilities with the discretion over whether to implement them entirely in the hands of local authorities. This uncertainty over the extent to which the power would be used and in what format means cost estimates must always be equally uncertain. The behavioural response of businesses is similarly difficult to gauge, meaning wide ranging sensitivity analysis is important to understanding the potential impact of the policy.

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

<table>
<tr><td colspan="2">What is the geographic coverage of the policy/option?</td><td colspan="6">England</td></tr>
<tr><td colspan="2">From what date will the policy be implemented?</td><td colspan="6">01/04/2012</td></tr>
<tr><td colspan="2">Which organisation(s) will enforce the policy?</td><td colspan="6">N/A</td></tr>
<tr><td colspan="2">What is the annual change in enforcement cost (£m)?</td><td colspan="6">N/A</td></tr>
<tr><td colspan="2">Does enforcement comply with Hampton principles?</td><td colspan="6">Yes</td></tr>
<tr><td colspan="2">Does implementation go beyond minimum EU requirements?</td><td colspan="6">N/A</td></tr>
<tr><td colspan="2">What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)</td><td colspan="3">Traded:</td><td colspan="3">Non-traded:</td></tr>
<tr><td colspan="2">Does the proposal have an impact on competition?</td><td colspan="6">Yes</td></tr>
<tr><td colspan="2">What proportion (per cent) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?</td><td colspan="3">Costs:</td><td colspan="3">Benefits:</td></tr>
<tr><td>Annual cost (£m) per organisation (excl. Transition) (Constant Price)</td><td>Micro</td><td>< 20</td><td>Small</td><td colspan="2">Medium</td><td colspan="2">Large</td></tr>
<tr><td>Are any of these organisations exempt?</td><td>No</td><td>No</td><td>No</td><td colspan="2">No</td><td colspan="2">No</td></tr>
</table>

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	13
Small firms Small Firms Impact Test guidance	No	13
Environmental impacts		
Greenhouse gas assessment	No	13
Wider environmental issues	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	No	13
Sustainable development Sustainable Development Impact Test guidance	No	13

[1] Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain 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	The existing legislation that needs to be amended is s47 of the Local Government Finance Act 1988 (http://www.legislation.gov.uk/ukpga/1988/41/section/47)
2	
3	

+ 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										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

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

Microsoft Office Excel Worksheet

Evidence Base (for summary sheets)

Background

1. Business rates are a tax on properties that are capable of beneficial occupation. The purpose of business rates is to raise revenues to fund local government. Usually the owner occupier or leaseholder of a property is the ratepayer. Non-domestic properties are mainly business properties such as shops, offices, warehouses and factories. There are approximately 1.7m properties liable for business rates in England.

2. Each property has a rateable value. Rateable values are assessed on the basis of the annual rent that a tenant would be willing to pay for it on the open market. All properties are assessed in a similar way to ensure that the burden of the non-domestic rate is shared fairly amongst businesses around the country. The rateable value is assessed by the Valuation Office Agency. Every five years there is a revaluation to ensure a property's rateable value reflects changes to the property market.

3. The amount of business rates paid is calculated as a function of the rateable value and the multipliers. There are two multipliers, the small business rate multiplier for eligible small businesses and the national multiplier. The latter includes a supplement to pay for small business rate relief. The national multiplier currently stands at 41.4p in England. So a property with a rateable value of £100,000 would have an annual bill of £41,400. The multiplier is capped each year by the RPI inflation rate. The multiplier is also adjusted at each revaluation so that the overall tax yield remains the same.

4. Business rates, although collected by local authorities, are pooled centrally, but the revenue raised is re-distributed to local authorities as an element of the Formula Grant for funding local government (with Revenue Support Grant), according to a formula tailored to meet the needs of particular authorities. An individual authority may receive fewer or more business rates revenues than they contributed to the pool.

Problem under consideration

5. The role of local authorities in the business rate system at present is to administer the system prescribed by central government. There is very limited flexibility within the business rates system for local authorities to support businesses, despite the variations in economic conditions across and within local authority boundaries.

Rationale for intervention

6. Occupancy costs mainly consist of rent, running costs (overheads such as utilities) and business rates. 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[2]. Furthermore the extent to which occupation costs affect individual businesses tends to vary depending on the industry, with some property-intensive industries facing more significant occupation costs. The review also suggests that as high occupation costs can be a barrier to entry for new firms they are potentially damaging for competition.

7. By reducing a fixed cost such as business rates, other things being equal, businesses will have additional funds that can potentially be used for investment or expansion. Conversely, a struggling business will be less likely to have to close or downsize if their tax burden is reduced. There is evidence[3] to suggest that when business rates are reduced rents may rise as a result, since businesses will be willing to pay more in rent in order to maintain occupation of the property at the same overall cost. This suggests that a decrease in the multiplier, a national reduction in business rates, would keep the overall level of occupation

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

costs fairly steady but shift the flow of revenue from the local authority to landlords who would capitalise the tax decrease into higher rents.

8. However, the following extract from the Barker review states that that will not necessarily always be the case: *“although the tax is formally incident on the occupier…some of the burden of taxation ultimately falls on the property owner rather than the occupier... However, it is unlikely under all circumstances that the tax will be fully capitalised; this depends on the elasticity of demand for and supply of rented accommodation, and so occupiers, in some markets, are likely to bear a part of the* [reduced] *burden.”*

9. The problem of high occupation costs in certain areas is not derived solely from the existence of business rates, issues such as planning policy and the quality of the local workforce or infrastructure all play a role. It is possible that business rates could be used to affect the level of occupation costs in the longer term only in certain rental markets where the conditions were right. As such, that kind of decision making is likely to be more effective in conjunction with complementary decisions that are typically taken at a local level around planning and infrastructure development.

Policy objective

10. Lowering business tax burden; positive effects on business cash flow, for further investment and/or employment; improving economic performance of an area; delivering on commitment to localism and promoting effective local authority/business relationships.

Description of options considered

11. The ‘do nothing’ option retains the status quo under which local authorities are able to provide discretionary business rate relief for the following purposes:

    a. topping up the 80 per cent mandatory relief given to charities to 100 per cent

    b. topping up the 80 per cent mandatory relief given to Community Amateur Sports Clubs to 100 per cent

    c. topping up the mandatory relief available to rural village shops etc

    d. providing up to 100 per cent relief to other non-profit making bodies

    e. hardship relief to certain businesses that are finding it difficult to pay

    f. discretionary relief to other small rural businesses

12. These options are available to all local authorities, but the criteria that allow the discount to be offered are fairly narrow. The conditions attached to the charity, Community Amateur Sports Clubs and non-profit making body reliefs limit these benefits to particular non-commercial organisations that occupy rated property. The rural rate reliefs apply only to settlements of less than 3,000 people. Furthermore, in the case of pubs, petrol filling stations and village shops the relief can be claimed if there is only one such business in the settlement and the rateable value of the business is less than £12,500 for pubs and petrol filling stations and £8,500 for shops, general stores or post offices. Discretionary relief can also be made available to other rural businesses with a rateable value up to £16,500. The cost of providing those reliefs is split between the local authority and central government.

13. Option 1 would allow local authorities complete discretion to offer business rate discounts to any hereditaments of their choosing. Those hereditaments could be identified by location e.g. particular wards; the use of the hereditament e.g. post offices, pubs, a new business park or a regeneration area; all hereditaments in the local authority area; or any of the above but limited by other factors such as the rateable value. The policy rationale behind a particular discount would be developed within the local authority, which would then also handle the implementation and administration.

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[3] ‘The relationship between rates and rents’ – Department of the Environment, 1995; ‘The relationship between National Non-Domestic Rates and rents on commercial property’ – HMT and HMRC, 2008; ‘Who pays business rates’ - Bond, Denny, Hall and McCluskey – Institute for Fiscal Studies, 1996.

14. The cost of providing those discounts would fall entirely on to the local authorities that chose to implement them. The difference between a ratepayer's normal bill and the actual liability after the discount would have to be funded by the local authority. The source of funding which was used to pay for discounts would also be left to their discretion, but, crucially, other things being equal, the total contribution of business rates from any local authority to the national pool would be unchanged by the introduction of a business rates discount. Billing authorities would be given the power to offer discounts and the ultimate responsibility for funding them. However, precepting authorities would be at liberty to propose candidates for discounts and contribute towards the costs where necessary.

Costs and benefits of each option

15. Since the new policy does not place a requirement on local authorities to provide discounts but simply enables them greater powers over whether or not they do, the extent of the costs is sensitive to the exact use of these powers. As such all costs over and above the 'do nothing' scenario are to be viewed as ranges and subject to a number of caveats which will be included alongside them.

16. The cost of providing the discounts themselves is due to be met by the local authorities that provide them and transferred to recipient ratepayers directly as a benefit. The local authority will have to pass the costs on to the residents, unless they can either raise enough revenue from other sources e.g. if introduced, local retention of business rates revenue or through efficiency savings. The scope for passing costs on to residents is limited because the Government plans to introduce referendums to allow local people to veto excessive council tax increases. Councils who wish to increase their council tax above a certain level from 2012-13 will trigger a referendum so that taxpayers have the opportunity to vote down these excessive increases unless supported by a majority of council tax payers.

17. The 'do nothing' option retains the current discretionary reliefs which are part-funded by the local authority from their own revenue and partly offset against the contribution to the pool.

Table 1: Discretionary relief offset against the contribution to the pool

Discretionary Reliefs	£ million				
	2006-07	2007-08	2008-09	2009-10(b)	2010-11(b)
Charity	8.2	8.8	9.1	9.7	9.7
Non-profit making bodies	25.4	25.7	27.9	28.3	28.6
Rural village shop	1.9	2.0	2.1	2.1	2.0
Other small rural business	1.2	1.3	1.3	1.3	1.2
Former agricultural premises(a)	0.1	0.0	0.0	-	-
Hardship	1.4	0.9	1.3	-	-
Charges on property	0.0	0.0	0.1	-	-
Community amateur sports clubs	0.1	0.2	0.2	0.3	0.2
Total	**38.2**	**38.9**	**41.9**	**41.7**	**41.8**

Source: NNDR1 and NNDR3 returns - data for 2006-07 to 2008-09 are outturn figures from NNDR3; those for 2009-10 and 2010-11 are budget estimates from NNDR1.

(a) Relief for former agricultural premises ended in August 2006.
(b) Budget forecasts from NNDR1 returns

18. The table above shows the amount of relief offered at the discretion of local authorities but funded by central government because it was offset against the contribution to the national pool. The amount of relief that can be offset varies depending on the type of relief. Charity and Community Amateur Sports Clubs reliefs are 25 per cent centrally funded, whilst non-profit and rural rate reliefs are 75 per cent centrally funded. These amounts are recorded annually and can be used to estimate the total and local authority funded discretionary reliefs by extrapolating from these proportions.

Table 2: Implied total and local authority funded discretionary relief 2010-11:

Discretionary Reliefs	£ million		
	Centrally funded	Local Authority	Total
Charity	9.7	29.2	38.9
Non-profit making bodies	28.6	9.5	38.1
Rural village shop	2.0	0.7	2.7
Other small rural business	1.2	0.4	1.6
Former agricultural premises	-	-	-
Hardship	-	-	-
Charges on property	-	-	-
Community amateur sports clubs	0.2	0.7	1
Total	41.8	40.5	82.3

19. Option 1 is so wide ranging that the potential costs to local authorities could in theory extend to the full rates bills for all hereditaments, if these were all to be waived completely. In 2010-11 the contribution to the pool of business rates raised on local lists is estimated to be £20bn after all reliefs. Without accounting for any increase in the total level of rateable value, for example from occupiers being encouraged to take on new or larger hereditaments after such a generous discount, that would be the maximum potential cost of the policy in 2010-11. That scenario is extremely unlikely when considered in the context of the actual local government finance system where to raise that amount would be equivalent almost to doubling the council tax bill (estimated to be £26bn in 2010-11), but it provides an interesting starting point for estimating the potential cost of the policy.

20. The likelihood is, therefore, that the extent to which business rates discounts were actually used would be much lower than the extreme scenario outlined above. It is expected that the discounts would be lower than 100 per cent and also more targeted if they were to be affordable. However, that entirely depends on the nature of the policies adopted at local authority level. A potential scenario has been included below as an illustrative example.

Possible scenario:

21. Local authorities could offer discounts but targeted only at a certain hereditaments. If discounts were to be used for a specific policy it is likely that it would not be necessary to offer the discount to all hereditaments in order to achieve the policy objectives. Constraining the number of hereditaments that are eligible would mean that more could be achieved for the same cost e.g. a larger discount per eligible hereditament. An example might be the protection of particular post offices or pubs which were considered of benefit to the community despite not being profitable in their own right and therefore worthy of subsidising.

21. The analysis of the consultation with local authority groups suggests that, although the powers are to be welcomed, the appetite for funding the discounts is fairly low. At present the discretionary reliefs that local authorities can offer ratepayers are part-funded by central government. The actual proportion of mandatory reliefs that were topped up at local authority discretion gives some indication of the willingness to offer discounts. By up-rating the amount of mandatory relief due to be paid out in 2010-11 it is possible to estimate the total discretionary relief that would be required to top-up the mandatory relief completely.

22. In 2010-11 an estimated 16 per cent of Charity, 28 per cent of Community Amateur Sports Clubs and 49 per cent of rural rate relief that could be paid out at the discretion of local

authorities will be paid out. Given that 75 per cent of rural relief is funded centrally as opposed to 25 per cent of Charity and Community Amateur Sports Clubs relief it is implied that, as would be expected, the willingness to provide additional relief is greater when more central government funding can be leveraged in.

23. This link is not necessarily causal and the preferences of different local authorities and the relative value of reliefs would also influence the extent to which discretionary relief was offered. However, it is apparent that having the powers and additional funding to provide rate relief do not necessarily mean local authorities have the resources and/or the inclination to do so in reality. In the case of rural rate relief, where central government would fund 75 per cent of the discretionary relief, less than half of the relief potentially available this year would be paid.

24. In general it might be expected that removing restrictions on the type of hereditament that can receive relief would tend to encourage authorities to offer discounts so that they could meet their preferred policy aims, but that having access to no central government funding would reduce this willingness. The existence of other sources of income such as local retention of business rates revenue, if introduced, relating directly to business rates might therefore be important in generating interest in the use of business rates discount powers.

25. There is no accurate way of predicting how many local authorities would choose to use discounts even if they considered them to be affordable. The evidence does suggest that local authorities do lack the available resources to fund discounts on a large scale, but that there would be willingness to use the powers in some cases. As such some simple sensitivity analysis was conducted to exemplify a range of scenarios in which a proportion of businesses was offered 100 per cent rate relief.

Table 3: Possible costs of discounts under speculative scenarios

Percentage of RV offered discount:	Discount costs (£m): Percentage of local authorities using discounts powers:					
	1 per cent	2 per cent	5 per cent	10 per cent	15 per cent	20 per cent
1 per cent	0	5	10	20	35	45
2 per cent	5	10	20	45	65	90
5 per cent	10	20	55	110	165	220
10 per cent	20	45	110	220	335	445
15 per cent	35	65	165	335	500	665
20 per cent	45	90	220	445	665	885

26. The table above, working from an estimate of the total rates bill for England in 2010-11 (after transitional relief), uses various percentages as proxies for i) the proportion of local authorities that might offer a discount and ii) the proportion of hereditaments that might be offered the discount in each authority assuming 100 per cent discount in each case. This provides crude, indicative estimates of the potential cost of discounts under a range of scenarios.

27. In theory, local authorities could go much further than the sort of targeted discounts discussed above. They could offer blanket discounts on business rates to all hereditaments within their jurisdictions. For example, there might well be authorities that wished to attract businesses into their areas and that as part of their strategy used a general discount on business rates as an incentive.

Administration costs:

28. Any discount being introduced would lead to administrative costs for those authorities which decided to offer them. The manner in which an authority decided to use the powers would affect the extent of these administrative costs. A blanket discount for example could probably be implemented in-house with changes made to the billing system by officials within the local authority workforce and as such the cost would be marginal. More targeted

discounts could be administered in a similar manner provided the eligible hereditaments could be identified accurately from the ratings list.

29. If the discount was to be targeted but eligible hereditaments could not be identified automatically from the ratings list, then further costs would also be incurred. Updates to the software systems that calculate business rates bills and the time spent on the identification of eligible hereditaments through publicity, the issue and processing of applications would form the majority of these costs.

30. Anecdotal evidence from discussion with local authorities suggests that changes to software systems would cost in the region of £2,500 and processing applications would be on average around £70 per application. The total administration cost to local authorities, based on this estimate, would therefore depend on the number of applications received where they are deemed necessary.

Table 4: Administrative costs under speculative scenarios

Percentage of hereditaments offered discount:	**Admin costs (£m): Percentage of local authorities using discounts powers:**					
	1 per cent	2 per cent	5 per cent	10 per cent	15 per cent	20 per cent
1 per cent	0.0	0.0	0.1	0.2	0.3	0.4
2 per cent	0.0	0.1	0.2	0.3	0.5	0.6
5 per cent	0.1	0.1	0.3	0.7	1.0	1.4
10 per cent	0.1	0.3	0.6	1.3	1.9	2.6
15 per cent	0.2	0.4	0.9	1.9	2.8	3.8
20 per cent	0.2	0.5	1.2	2.5	3.7	5.0

31. The table above suggests potential administrative costs resulting from the speculative scenarios, assuming applications for all discounts were required, including software upgrades. However, those need to be viewed against the background of £84m per annum made available by the Government to cover the administration of business rates.

Deadweight costs:

32. If the discounts offered were large enough to encourage businesses simply to move to a different locality without an increase in output or employment at a national level, the distortions created by asymmetrical tax rates might lead to deadweight costs. That type of substitution, without any associated growth in the relocating business, is likely to offset the benefits to the local authority gaining additional businesses with similar costs to those authorities losing businesses. The relocation costs to the business (recruitment, training, fees etc) would in effect be subsidised by the authority that offered the business rate discount but without creating any additional value at the national level.

33. Those costs have not been monetised. The evidence base is at present too weak to estimate the extent to which businesses would be encouraged to substitute one authority for another on the basis of either business rates liability alone or total occupancy costs. The attached Post-Implementation Review plan (see Annex 1) contains more details about how the evidence on issues such as this is to be improved.

Benefits:

34. The benefits of increasing local authorities' power to offer businesses discounts are in the first instance likely to fall to businesses that are offered reduced bills as result of the power being exercised. Since business rates could be offset against corporation tax and income tax self assessments, reducing the burden of business rates would lead to an increase in other business tax receipts to the Exchequer. That effect has not been valued but, whilst a business faced reduced occupancy costs, other things being equal, profits should increase and that would have a positive effect on other business tax receipts.

35. The amount of benefit to businesses would be equal to the costs to local authorities that decided to offer a discount. The tax burden would be simply transferred to the local authority which had to make up the contribution to the pool from its own resources. A proportion of the benefit to the businesses in receipt of a discount would be transferred to the Exchequer as a result of increased corporation or income tax revenue.

36. The financial benefits to businesses would potentially be helpful to local authorities in meeting their strategic and policy objectives. If a local authority intended to create or save jobs for example, then a business rate discount might form part of the policy framework by which that was achieved. The net benefit of their policies might not be as positive when considered alongside the effect on other authorities and that might raise a number of equity issues.

37. The success of the policy as a whole would depend on the extent to which the benefits to businesses receiving the discount and the communities they operate in would exceed any deadweight and administrative costs of implementing discounts. That is sensitive to the way in which the discount would be targeted (if at all) and the particular property market in which the discount would be applied. If demand for rented accommodation increased when total occupation costs fell, then a business rates discount would encourage more tenants to try and enter the market. If that only caused rents to rise, the benefit would accrue to landlords and might not achieve the desired policy objectives as overall occupancy costs remained unchanged.

Risks and assumptions

38. The costs of these new policy options are uncertain and particularly under Option 1 could take a very wide range. This uncertainty is due in the most part to four major unknowns:

a. the number of local authorities that will exercise the new powers
b. the level of relief they will offer
c. the number/type of hereditaments the relief will be offered to (eligibility criteria)
d. how the discounts will be funded.

39. There will also be a number of interactions between i) affordability and other Government policies e.g. council tax freeze policy and referendums, local retention of business rate revenues, if introduced, and ii) efficacy of discounts in achieving policy objectives and the decisions of other local authorities over discounts. There is a risk that that could lead to an increase in council tax to pay for the discount, but that would be down to the discretion of each local authority.

Equity concerns:

40. Allowing local authorities to compete for businesses when they did not have equal resources would reinforce inequalities between those authorities. An authority that already found its resources under pressure in providing public services would be unlikely to be able to fund incentive schemes for businesses in comparison with other, more resource rich, authorities. A discount that successfully encouraged businesses into areas that were initially thriving at the expense of more deprived areas could serve to worsen the financial position of those deprived authorities and place even greater pressure on their resources.

41. That is an issue that could also arise in a regime whereby rates revenues were retained locally, as proposed in the Local Growth White Paper. The Local Government Resource Review will consider the potential distributional impacts of such arrangements, and what form of mitigation might be appropriate, as part of its work examining those proposals.

42. Similarly if authorities in competition to encourage business growth offered discounts of similar or equal magnitude and only succeeded in maintaining the status quo as a result, costs could be transferred to council tax payers without achieving the intended policy goals. Or indeed costs might simply be imposed on residents of neighbouring authorities who could be forced either to fund similar discounts or to face the loss of local businesses to the more competitive neighbouring authorities.

43. However, those risks probably overstate i) the degree of competition between neighbouring authorities and ii) the willingness of businesses to relocate in response to business rate discounts. Further evidence is not currently available as to the strength of the incentive effect, and whether the discounts are likely to encourage either relocation of existing businesses, the growth of existing businesses, start-up businesses or have no significant effect. Many service providing businesses, for example, will not find it beneficial to relocate a long way from their customers in order to pay a reduced business rates bill, whilst for others occupancy costs may be an important factor in decisions over location.

State aid:

44. As the discount would be introduced at the discretion of local authorities who would also be funding the relief and taking decisions on the nature of the relief, responsibility for ensuring that the grant of relief did not contravene the rules on state aid would lie with the authority. That is the case at present where an authority is deciding whether to exercise its existing powers to grant relief under s.47 of the Local Government Finance Act 1988.

Key assumptions:

45. The administrative cost of discounts was estimated by liaising with a small number of billing authorities. Their responses have been taken as representing the costs to all billing authorities in the absence of better evidence to the contrary.

46. The analysis is based on the rating list as at 1 April 2010[4]. Over time that rating list will change and hereditaments will be added and removed with the historical trend being towards a net increase in both the rateable value and number of hereditaments over time. The analysis used has derived costs from that particular snapshot without forecasting forwards.

Specific Impact Tests

Statutory equality duties

1. The policy proposal to allow local authorities to provide business rates discounts to any ratepayer does not in itself favour or disadvantage any specific group. The details of who would be eligible for a business rate discount will be left to local authority discretion once the power to provide discounts has been devolved. After an initial screening it has been concluded that an equality assessment is not required.

Economic impacts

Competition

2. A business rate discount that applied to some but not all businesses within a particular market would give an advantage to those in receipt of the discount. Conversely, since business rates impose a cost on businesses, a discount could lower the barriers to entry into a market. The specific details of who would be eligible for a business rate discount would be left to local authority discretion and the impact on competition should be considered at that stage. Local authorities are directly responsible for ensuring that they comply with state aid rules.

Small firms

3. The specific details of who would be eligible for a business rate discount would be left to local authority discretion. We have consulted the Federation of Small Businesses and they have not objected to the policy.

Environmental impacts

Greenhouse gas assessment and wider environmental issues

4. There is no impact on the extent of greenhouse gases or wider environmental impacts of allowing local authorities to offer discretionary business rate discounts.

Social impacts

Health and well-being

5. There is no impact on health and well-being of allowing local authorities to offer discretionary business rate discounts.

Human rights and Justice system

6. There is no impact on human rights or the Justice system of allowing local authorities to offer discretionary business rate discounts.

Rural proofing

7. Rural areas will tend to have fewer hereditaments and therefore the number of ratepayers affected is also likely to be lower than in urban areas. That does not make the policy any less relevant to rural areas and the same opportunity to use a business rate discount would apply across all areas.

[4] http://www.voa.gov.uk/publications/statistical_releases/VOAStatisticsReleaseCompiledfinal.pdf

Sustainable development

8. There is no impact on sustainable development of allowing local authorities to offer discretionary business rate discounts. A business rate discount would not apply indefinitely and as such the impact on future generations depends on decisions made in the future to reflect their changing circumstances.

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 basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review]; There have been a number of changes affecting the business rates system, including amendments to empty property rates, small business rate relief, two deferral schemes for payment of rates as well as the introduction of the Business Rates Supplement. To look at these incremental changes individually would not assess the cumulative impacts of the policies on business rate payers and the property market. The Department is therefore considering the possibility and feasibility of a proposed review which would cover the changes to business rates policy as a whole, using evidence from as wide a range of individual policy interventions as is practical.
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?] If such a review is feasible, the objective of the review would be to assess the extent to which individual business rates policy objectives have been met and the wider cumulative impact upon ratepayers and the property market. We will look to review all the recent Government policy changes, of the current and previous administrations, to the business rates system and to assess the impact of these policies cumulatively. The purpose of such a review would be to understand the efficiency of business rates as a policy tool for local authorities and/or central government.
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach] It is envisaged that research will be commissioned to provide evidence for the Post Implementation Review Report. The full scope of this research has yet to be worked up, but the focus will extend to whether this policy and other business rates policies under the Bill as well as other recently implemented rates policies have worked or are working as intended or are causing distortions in the property market or having other unintended consequences on business behaviour. This should help to refine the use of business rates policy towards achieving value for money in any future interventions. Over the coming months, further details of any proposed research and analysis will be considered by a Localism Bill review steering group, to ensure that the methods are appropriate, proportionate, and cross-cutting where possible, so that we collect only essential information/data at both the baseline and follow-up review stages.

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

The proposed research specification will be developed further in the months ahead and it will set out in greater detail the baseline measurements, suggested data sources and methodology to compare where possible outcomes against policy aims across the range of business rates polices.

Data are already collected on the contribution to the national pool and the existing mandatory and discretionary reliefs given at local authority level. Changes to the forms completed by local authorities could enable additional data on the amount of business rates discounts offered to be collected also, but the policy objectives of local authorities and sources of funding, i.e. who actually bears the cost of funding the discount, are harder to establish.

Areas that did introduce discounts would be useful for any review, in assessing behavioural changes that could be induced using business rates and costs incurred in achieving those changes. The effect on commercial rents, property prices and the overall size of the taxbase in these areas, in contrast to others which did not offer discounts, could be monitored to study the effects of changing business rates policy more generally.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

The success of new and existing business rates policies that it is proposed will be covered by the full review are subject to a number of different success criteria specific to the particular policy aims.

For business rate discounts the success of the policy would initially depend on whether local authorities chose to use these powers and then secondly the benefit that those local authorities would be able to derive from using business rates as a tool to achieve their policy aims. An authority might wish to increase the overall level of business within their area or simply support existing businesses in struggling areas, the success of a business rate discount would be measured against whether occupancy costs had fallen enough to change the behaviour of ratepayers in the desired way.

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]

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]

N/A