Communities and Local Government

Localism Bill: Business Rate Supplement – requirement for a ballot for all Business Rate Supplement proposals

Impact assessment

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Impact assessment

January 2011

Department for Communities and Local Government

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Title: Localism Bill: Business Rate supplement - requirement for a ballot for all Business Rate supplement proposals	Impact Assessment (IA)
Lead department or agency: Department for Communities and Local Government	**IA No:** DCLG 0048
Other departments or agencies:	**Date:** January 2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Marie Hazzard 030 344 43608

Summary: Intervention and Options

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

The Business Rate Supplement Act 2009 (2009 Act) allows upper tier authorities to levy a Business Rate Supplement on the National Non-domestic (business rates) multiplier to fund projects that promote additional local economic development. Before a Business Rate Supplement that provides over a third of the funding for a project can be imposed the levying authority must hold a ballot of liable ratepayers. However, where the Business Rate Supplement only provides less than a third of the funding for a project a ballot is not required. The Government considers that there is a democratic deficit in the imposition of a Business Rate Supplement on businesses in the later circumstance without a ballot and that businesses should have the right to veto the funding of projects for all proposed Business Rate Supplement.

What are the policy objectives and the intended effects?

The objective of the policy is to ensure that all liable businesses for a Business Rate Supplement will be able to have a vote on the imposition of all future Business Rate Supplement that may be imposed even where the Business Rate Supplement raises funds less than a third of the project's overall cost. This brings the process for businesses approving a Business Rate Supplement to be imposed on them in line with Business Rate Supplement funded projects where the Business Rate Supplement funds more than a third of the overall costs of the project as well as Business Improvement Districts.

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

Two policy options have been considered:

Do nothing: Allow the imposition of Business Rate Supplement on businesses without the need for a ballot where the Business Rate Supplement funds less than a third of the overall project costs.

Option 1: Require a ballot for all future Business Rate Supplement: Amend the Business Rate Supplement Act 2009 to ensure that there must be a ballot of businesses before any Business Rate Supplement that funds less than a third of the overall project is imposed.

As the Government has decided that it is not acceptable that there is a democratic deficit in the imposition of a Business Rate Supplement where it currently funds less than a third of the overall project the Government has therefore decided to implement option 1. This will require a ballot for all future Business Rate Supplement projects.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It is intended to be reviewed as part of a research project – see Post Implementation Review Plan at Annex 1.
Are there arrangements in place that will allow a systematic collection of	No

monitoring information for future policy review?	

<u>Ministerial Sign-off</u> 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: Require a ballot for all future BUSINESS RATE SUPPLEMENT, even those funding less than a third of an overall project's costs.

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	**High**: - 0.630	**Best Estimate: -** 0.095

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0	0	0	**0**
High	0		0.073	**0.630**
Best Estimate	0		0.011	**0.095**

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

The administrative cost of ballots will fall to local authorities that use a Business Rate Supplement to fund less than one third of an economic development project. The cost is not considered to be particularly significant, especially given that the fairly specific circumstances under which these additional ballots will be triggered seem unlikely to occur frequently.

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

A further cost will fall on ratepayers who will need to consider the Business Rate Supplement proposal and vote accordingly. Since participation in a ballot is voluntary and due to the uncertainty over the extent to which ratepayers would have decided if they support a Business Rate Supplement or otherwise in the absence of a ballot (i.e. the do nothing option) this has not been monetised.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0	0	0	**0**
High	0		0	**0**
Best Estimate	0		0	**0**

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

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

This may encourage more collaborative, better informed decision making in cases where Business Rate Supplement will fund less than a third of a project costs. Ratepayers will benefit in that they should not be subject to higher business rate bills unless they perceive the benefits to their business outweigh the costs of the Business Rate Supplement project otherwise the Business Rate Supplement will not pass a ballot. These benefits are difficult to value and so have not been monetised. Nonetheless, requiring a ballot in all future Business Rate Supplements will ensure that projects being promoted will need to satisfy the liable ratepayers that the project will be effective and efficient in delivering economic development otherwise ratepayers will be unlikely to vote for such a proposal.

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

It has been assumed that some but not all authorities with the power to do so will levy a Business Rate Supplement within the 10 year period covered. The uncertainty over the extent to which the power will be used led to an arbitrary central assumption that only authorities capable of raising over £5m through a 2p Business Rate Supplement would do so and a third of these would need a ballot which would not be required under the 'do nothing' option. The current rating list was used to make this judgement, with no adjustments for growth of the taxbase. These costs were then spread equally over the 10 years for the average annual cost (this assumes that the authorities which impose a supplement on average once over the 10 year period). Assumptions have also been made to test the sensitivity of the cost of ballots at various different levels per ratepayer.

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?			2011		
Which organisation(s) will enforce the policy?			Upper Tier local authorities		
What is the annual change in enforcement cost (£m)?			N/A		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
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?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:**		**Benefits:**
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt? These businesses will be exempt if they occupy properties below a rateable value of £50,000	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No

Specific Impact Tests: Checklist

Set out in the table below where information on any Specific Impact Tests 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	13
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	14
Small firms Small Firms Impact Test guidance	No	14
Environmental impacts		
Greenhouse gas assessment	No	14
Wider environmental issues	No	14
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	14
Human rights Human Rights Impact Test guidance	No	14
Justice system Justice Impact Test guidance	No	14
Rural proofing Rural Proofing Impact Test guidance	No	14
Sustainable development Sustainable Development Impact Test guidance	No	14

[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).

All the documents set out below are available at: www.communities.gov.uk/localgovernment/localgovernmentfinance/businessrates/busratessupplements/

Business Rate Supplements Act 2009

The Business Rate Supplements Act 2009 (Commencement No1) (England) Order 2009/2202

The Business Rate Supplements (Rateable Value Condition) (England) Regulations 2009/2542

The Business Rate Supplements (Transfers to Revenue Accounts) (England) Regulations 2009/2543

The Business Rate Supplements (Administrative Expenses) (England) Regulations 2010/134

The Business Rate Supplements (Collection and Enforcement) (England) Regulations 2010/187

Related publications

Business Rate Supplements: guidance for local authorities - Published: 8 January 2010

Business Rate Supplements: summary of consultation responses on draft guidance - Published: 8 January 2010

Business Rate Supplements: draft proposals on ballot and administration arrangements - Impact assessment - Published: 13 May 2009

Business Rate Supplements: draft proposals on ballot and administration arrangements - Consultation - Published: 13 May 2009

Business Rate Supplements guidance: additionality and ballots - Published: 13 May 2009

Business Rate Supplements: a consultation on draft guidance to local authorities - Published: 23 January 2009

Business Rate Supplements Bill 2008: Impact Assessment - Published: 4 December 2008

Business Rate Supplements: A White Paper - Published: 9 October 2007

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)

Problem

1. The Government in the Coalition Agreement announced its intention to ensure that in all future circumstances where a Business Rate Supplement is to be imposed businesses liable for the levy should have the right to vote on the proposed levy.

2. Currently a ballot of businesses affected for the imposition of a Business Rate Supplement is only required where the Business Rate Supplement would provide over a third of the funding for the economic development project. However, where the Business Rate Supplement only provides less than a third a ballot is not required and businesses can have a Business Rate Supplement imposed without voting for the proposed project.

Rationale and policy objective

3. The rationale for the amendment to the Business Rate Supplement Act 2009 is that the Government considers that there is a democratic deficit in the imposition of a Business Rate Supplement on businesses where the Business Rate Supplement only provides less than a third of the overall project funding and that businesses should have the right through a ballot to veto the funding of projects for all future proposed Business Rate Supplement. This is because authorities can currently, in certain circumstances, impose a Business Rate Supplement and commit that funding without any legal requirement for ratepayers to scrutinise their proposals. The change will therefore ensure that for every proposed Business Rate Supplement authorities will have to satisfy ratepayers that, for example, the funds will be spent wisely and ultimately that it is therefore right to have a Business Rate Supplement.

4. The policy objective is therefore to promote collaboration between local authorities and businesses, ensuring that businesses are offered greater protection from unwarranted increases in their business rates liability. Primary legislation is required to amend the existing Business Rate Supplement Act 2009 to remove the criteria that allows for a Business Rate Supplement to be imposed without a ballot. The outcome will ensure that the decision to implement all future Business Rate Supplements is decided on the same basis as Business Improvement Districts, which require a ballot in all circumstances.

5. The benefits of a Business Rate Supplement, where approved by ratepayers, could have real benefits to an area including benefits for business. Proposals for a Business Rate Supplement would be for projects that promote economic development in an area, which can include capital investment such as improved transport links. Where ratepayers agree to impose a Business Rate Supplement, the investment in promoting economic development can have real benefits for those paying the levy.

6. For example, the Greater London Authority's final prospectus for the Business Rate Supplements in London for Crossrail stated that "Once completed in 2017, the link will add 10 per cent to London's rail capacity and substantially reduce congestion on the Tube, Docklands Light Railway and national rail services by providing high frequency, high capacity services. It will be by far the largest single investment in London's infrastructure for a generation or more. But, more than simply adding much needed space on the transport network, it will support journeys from across London and beyond to high value jobs in central London. Canary Wharf and the Isle of Dogs will be able to offer around 100,000 extra jobs as a result. Up to 14,000 people will be employed on the project at the peak of construction, creating new employment and skills opportunities for many Londoners".

Background

7. The Business Rate Supplement Act 2009 provides a discretionary power for county councils, unitary district councils and, in London, the Greater London Authority to levy a supplement on business rates, subject to a national upper limit of 2p per pound. Levying authorities can retain the proceeds to fund additional projects to promote the economic development of their local area (e.g. improvements in transport links, skills training or promoting an area to attract inward investment).

8. Authorities cannot levy a Business Rate Supplement on properties with a rateable value below £50,000; and have the option of increasing that threshold to exempt more properties. Authorities are also required to hold a statutory consultation on all proposals to levy a Business Rate Supplement regardless of whether the Business Rate Supplement funds more or less than a third of the overall project.

9. Currently, where a Business Rate Supplement will fund more than a third of the total cost of a project, levying authorities are required to ballot those ratepayers potentially liable for the supplement and gain the support of a simple majority (both in terms of the number of properties and the amount of rateable value of those properties). Where a Business Rate Supplement funds less than a third no ballot is required. The Business Rate Supplement Bill 2008: Impact Assessment - Published: 4 December 2008 and the Business Rate Supplement: A White Paper - Published: 9 October 2007 set out in detail the impact of the Business Rate Supplement generally.

10. The only Business Rate Supplement levied to date was introduced by the Greater London Authority in April 2010 and is a major component of the funding package for Crossrail. The Business Rate Supplement 2009 Act specifically exempted the Greater London Authority from the requirement to hold a ballot for a Business Rate Supplement imposed before 1 April 2011 regardless of whether the supplement would fund more than a third of the project costs.

Options considered

11. Bearing in mind the policy objective is to ensure that there is a ballot for all future Business Rate Supplement that are imposed there are only two options:

    a. **Do nothing:** Allow the imposition of Business Rate Supplement on businesses without the need for a ballot where the Business Rate Supplement funds less than a third of the overall project costs.

    b. **Option 1: Require a ballot for all future BUSINESS RATE SUPPLEMENT:** Amend the Business Rate Supplement Act 2009 to ensure that there must be a ballot of businesses before any future Business Rate Supplement that funds less than a third of the overall project is imposed.

Costs and benefits of the options

12. The costs and benefits of holding a ballot on Business Rate Supplement will only be realised if levying authorities use Business Rate Supplement to fund projects. The extent of these costs will therefore be very sensitive to the number of Business Rate Supplement projects implemented which is uncertain. Furthermore the only difference between the costs and benefits of the ‘do nothing’ option and Option 1 will be in cases where authorities fund less than a third of costs from the Business Rate Supplement which is also very uncertain.

13. The nature of the costs that could be incurred in Option 1, where local authorities decide to implement a Business Rate Supplement which would not trigger a ballot under the ‘do nothing’ scenario, are broadly:

a. the cost to the authority of publicising and holding the ballot;
b. the cost to respondent ratepayers of participating in the ballot.

14. Every ratepayer that would potentially be liable to pay a Business Rate Supplement would, under Option 1, need to be informed of the ballot and provided a ballot paper. The cost to the levying authority will depend on the number of ratepayers they will have to issue with a ballot paper, although the average cost per ballot would be expected to fall as the number of ratepayers increases due to certain fixed administrative costs and economies of scale. As such the cost of Option 1 is also sensitive to the specific nature of the authorities that use a Business Rate Supplement to fund less than one third of any particular project.

15. Evidence suggests that costs of *binding* referendums are of the order of magnitude of £1-£2 per voter.

Year	**Area**	**Characteristics of referendum/election**	**Costs per elector** (2009 prices)**
1999	Milton Keynes	Non-binding council tax referendum	59p
2001	Croydon	Non-binding council tax referendum	76p-£1.02
2001	Bristol	Non-binding council tax referendum	50p
2004	North East	NE referendum for regional government (binding)	£1.12 (single tier) £1.58 (two-tier)
2009	Tower Hamlets	LA's estimate of binding mayoral election*, based on costs of local elections	£1.56
2009	Basingstoke & Deane	LA's estimate of binding mayoral election*, based on costs of local elections	£1.49
2009	England	General election (a proxy for the most resource intensive local referendum)	£1.98 - ranging from £1.37 (Derby North) to £3.15 (Penrith & Borders)

* when held separate to other elections; ** number of electors from Office National Statistics electoral statistics for relevant year http://www.statistics.gov.uk/statbase/Product.asp?vlnk=319

16. Anecdotal evidence from Business Improvement Districts (BIDs), which have a voting system that is almost identical to Business Rate Supplement ballots, suggests that these ballots may incur higher average costs per vote.

17. By way of example, Kingston Council estimated the cost of a ballot at £5,000 for a town centre Business Improvement District covering 892 hereditaments[2]. This is around £5.61 per hereditament involved in the ballot. The sensitivity analysis has therefore used £2 and £6 for the lower and upper bounds in estimating the cost of ballots to local authorities after rounding the general election and Kingston town centre Business Improvement District estimates to the nearest pound.

18. The maximum possible cost of Option 1 to local authorities would be incurred if all of the 119 levying authorities (excluding the Greater London Authority and Crossrail Business Rate Supplement which is exempt) chose to fund projects using a Business Rate Supplement for less than one third of costs. Assuming the projects all use the full 2p supplement on the multiplier then this entails combined project costs of £1,654m of which up to one third (£551m) is funded by Business Rate Supplement; leaving at least a £1,102m shortfall to be met by the responsible levying authorities. Especially in the short term, as the country emerges from recession and available local authority funding is reduced, the capability of local authorities to raise this sort of additional money is impaired.

[2] http://www.kingstonfirst.co.uk/files/documents/pdfs/BID2+Report+to+RBK+Executive.pdf

19. At present we are not aware of any proposals for any Business Rate Supplement schemes outside of Crossrail. Therefore it is considered extremely unlikely that all levying authorities will chose to propose a Business Rate Supplement, even in the medium to long term; and even more so where at least two thirds of the project finance are generated from other sources. Any proposal is therefore likely to place a greater burden on the Business Rate Supplement to raise funds, in which case there is no change on the cost of the 'do nothing' option.

20. The analysis below is an estimate of the cost of this proposal over the next ten years. It is based on the rating lists maintained by the Valuation Office Agency as at 01 April 2010[3]. The rating lists were used to identify which local authority areas might potentially levy a Business Rate Supplement over the next 10 years and the number of hereditaments that could be affected by the introduction of Option 1 as a result. It is also assumed that any local authority will use only a single Business Rate Supplement over the 10 year period.

21. Since a Business Rate Supplement would apply across a whole upper tier authority area, the projects chosen are likely to be on a fairly large scale in order to be of benefit to all those contributing to the cost. A county council for example would be unlikely to use a county wide Business Rate Supplement for a small town centre scheme. As such it has been assumed that levying authorities that would not be able to raise a minimum of £5m through a 2p Business Rate Supplement will not implement a Business Rate Supplement scheme. This figure is somewhat arbitrary but such an assumption was necessary in the face of significant uncertainty around the future use of Business Rate Supplement. Annex 2 has further details of these authorities.

22. This assumption significantly reduces the potential number of Business Rate Supplement projects from 119 to 35. If it is also assumed that the proportion of funding raised by a Business Rate Supplement varies uniformly across the schemes that will be proposed, on average a third of the hereditaments from the authorities proposing a Business Rate Supplement will, under Option 1, now be balloted.

Table 1 – estimating the number of hereditaments that may be balloted under Option 1:

Levying Authority Assumption:	**Number of Authorities:**	**Number of hereditaments with RV > £50,000:**	**Combined Rateable Value:**	**Potential revenue generated by 2p BUSINESS RATE SUPPLEMENT:**	**Minimum total project costs if BUSINESS RATE SUPPLEMENT funds less than 1/3:**	**BUSINESS RATE SUPPLEMENT shortfall - locally funded:**
			£ million			
All except London:	119	139,100	27,559	551	1,654	1,102
Authorities in which a 2p BUSINESS RATE SUPPLEMENT could raise over £5m:	35	81,400	16,225	324	973	649

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

Assumed level of BUSINESS RATE SUPPLEMENT with revenue over £5m that fund less than a 1/3 of project cost:	n/a	27,100	5,403	108	324	216

23. In the short term it is very unlikely that there will be any cost to Option 1 as currently we are not aware of any Business Rate Supplement projects being planned and there needs to be an extended period of preparation in order to implement such a scheme. However, it is likely that at some stage local authorities will find projects that are proposed for Business Rate Supplement funding and under Option 1 some of these will be subject to ballots. Accepting the assumptions above as reasonable suggests a range of between 0 and 81,000 hereditaments that will be balloted in the long term, with a best estimate of 27,100.

Table 2 – estimating the cost of Option 1 to local authorities:

	Number of Hereditaments:		
Per ballot cost:	*0*	*27,100*	*81,400*
£2.00	£0.00	£55,000	£165,000
£4.00	£0.00	£110,000	£325,000
£6.00	£0.00	£165,000	£490,000

24. The table above shows the sensitivity of these costs to changes in the total number of hereditaments and the average cost per ballot issued. The mid point between high and low cost per ballot assumptions was considered a reasonable best estimate given the lack of appropriate evidence. There is a genuine possibility that over the 10 year period covered by this impact assessment there are no proposals that will have less than one third of project costs funded by a Business Rate Supplement. As a result the lower bound cost estimate of £0 remains realistic.

25. The total cost of Option 1 is therefore estimated to be between £0 and £490,000, with a best estimate of £110,000 over the next 10 years. The average annual and present value of these costs (see 'Summary: Analysis and Evidence' sheet) assume that the cost is spread evenly across each year.

Table 3 – Further sensitivity analysis:

	Best		High	
Minimum Revenue Assumption	Number of Hereditaments Balloted	Cost of Ballot	Number of Hereditaments Balloted	Cost of Ballot
£2.5m	40,700	£165,000	122,100	£735,000
£5m	27,100	£110,000	81,400	£490,000
£7.5m	18,800	£75,000	56,500	£340,000
£10m	13,300	£55,000	40,000	£240,000

26. Further analysis was undertaken to test the sensitivity of these costs to changes in the minimum revenue assumption. If authorities capable of raising above £2.5m from a 2p Business Rate Supplement are included the number of hereditaments potentially affected increases and so does the cost. The table above shows a range of examples and the costs based on the best and upper bound estimate assumptions from the main analysis. The low estimate still remains the same at £0.

27. The cost to ratepayers of having to participate in the additional ballots under Option 1 will be primarily in terms of the time cost of making a decision whether or not to support a Business Rate Supplement proposal. Given that under Option 1 the levying authority proposing a Business Rate Supplement is required to conduct a consultation in the same way as the 'do nothing' option, then ratepayers will not be given additional information to consider.

28. Those ratepayers with the strongest opinions about a proposed Business Rate Supplement would have been likely to become involved at the consultation stage under the 'do nothing' scenario. Option 1 therefore imposes little burden on these ratepayers as the ballot becomes an extension of the consultation process. Other ratepayers may spend more time on the deciding whether or not to support the proposal as a result of having the ability to participate in a ballot, but it should be noted that participation is voluntary and therefore ratepayers can choose to ignore the ballot paper if they are indifferent towards the proposed Business Rate Supplement.

Risks and assumptions

29. The analysis above has been based on a number of assumptions many of which have been made difficult due to very limited availability of evidence. How many, if any, levying authorities will choose to use the powers in the Business Rates Supplement Act in future is extremely uncertain, as is the extent to which any future Business Rate Supplement will fund less than one third of an economic development project. As such the results should be treated with some caution and have been presented as a fairly wide range of potential costs. These are not forecasts of when and if local authorities will chose to implement a Business Rate Supplement, only realistic possible scenarios.

30. It has also been assumed in the above estimates that the behaviour of local authorities and/or ratepayers will not be significantly affected by these changes to the Business Rate Supplement regulations. The 'do nothing' option could provide an incentive for local authorities considering a Business Rate Supplement to seek to use the supplement for less than one third of the cost of a particular project in order to avoid a ballot.

31. The assumption that local authorities would not seek to do this is based on the view that, in general, local authorities' preferences are not too far removed from local businesses. If this is the case then use of the consultation process to gauge opinion and design the most appropriate project would be preferable for all parties than imposing a Business Rate Supplement onto unwilling local businesses. However, requiring a Business Rate Supplement ballot in all cases is a safeguard for ratepayers against the risk that this assumption would not hold in reality.

32. Conversely, some beneficial projects may be rejected at a ballot on the grounds that businesses are unwilling to contribute towards their funding. In some cases the economic development project being considered might not provide benefits to business but is considered by the local authority to have other economic benefits. In this case there is a risk that a relative to the do nothing scenario, economically beneficial projects do not go ahead because they can not pass a ballot.

33. The present values of costs and benefits are also sensitive to the particular scenario chosen. The high, low and best estimate costs were spread evenly over a potential 10 year period before discounting.

Impact on main groups

34. The main impact of the policy proposal is upon Upper Tier Authorities outside of London, and business and other ratepayers potentially liable for a future Business Rate Supplement.

35. In regard to Upper Tier Authorities outside of London, the impact of the policy will be to ensure that if they wished to impose a Business Rate Supplement where it funded less than a third of the overall project they would have to in future hold a ballot of liable businesses.

36. The policy will ensure that for every proposed Business Rate Supplement (not just for those that fund more than a third of the project's costs) ratepayers will be able to vote for and in effect approve the planned economic development project that they will be funding. Requiring a ballot in all future Business Rate Supplements will ensure that ratepayers will therefore need to be satisfied that the project will be effective and efficient in delivering economic development (otherwise ratepayers will be unlikely to vote for the proposal). The ballot process should therefore deliver ratepayers' priorities as the allocation of potential Business Rate Supplement revenues to deliver a project would need their explicit support and approval.

37. The Government is not aware of any current proposed Business Rate Supplement that is being prepared by Upper Tier Authorities outside of London. There is therefore no evidence that any future Business Rate Supplement would have been less than a third of the overall project costs that would in future require a ballot whereas the current Business Rate Supplement Act would allow for the imposition of the Business Rate Supplement without a ballot.

Admin Burden and Hampton Principles

38. The admin burden on businesses will be the cost of voting – However, there is no evidence that any future Business Rate Supplement would have been less than a third of the overall costs and therefore would have been imposed without a vote. Also participation in the ballot is voluntary for businesses.

39. This policy adheres to the important Hampton Principle of allowing economic progress by increasing the protection made to businesses; in this case shown by allowing businesses to vote on an increase in their taxation specifically for an economic development project for their area.

40. The current enforcement interventions that apply to a Business Rate Supplement allow the Secretary of State to cancel a Business Rate Supplement, if a levying authority has acted in a way that is inconsistent with the requirement to hold a ballot will apply.

Wider Specific Impact Tests

Statutory equality duties

41. The policy proposal to allow all ratepayers of liable properties for a Business Rate Supplement to be able to vote on whether to impose a Business Rate Supplement upon themselves for a specific project does not impact upon race, gender or disability. It has been concluded that an equality assessment is not required.

Economic impacts

Competition

42. An initial screening was completed and it was concluded that this policy does not require a full competition assessment.

Small firms

43. The proposal for a vote will be applied equally for all ratepayers potentially liable for a Business Rate Supplement whether they are a small business or a larger concern. It should be noted that any ratepayer, either a small businesses or a larger concern, occupying a property with a rateable value below £50,000 is exempt from paying a Business Rate Supplement on that property.

44. This exemption threshold therefore excludes 1.5m of business properties or 89 per cent of all properties in England from being liable for a Business Rate Supplement and therefore from the requirement to vote for a Business Rate Supplement.

45. The policy proposal adds protection for any small firm that occupies a property with a rateable value above £50,000 as it will allow them to vote on whether the proposed Business Rate Supplement is imposed on them as a cost of their business.

Environmental impacts

Greenhouse gas assessment and wider environmental issues

46. There is no impact on the extent of greenhouse gasses or wider environmental impacts of allowing businesses and other ratepayers liable for a Business Rate Supplement to be able to vote on the imposition of the tax to fund an economic development project.

Social impacts

Health and well-being

47. There is no impact on health and well-being of allowing businesses and other ratepayers liable for a Business Rate Supplement to be able to vote on the imposition of the tax to fund an economic development project.

Human rights and Justice system

48. There is no impact on human rights or the Justice system of allowing businesses and other ratepayers liable for a Business Rate Supplement to be able to vote on the imposition of the tax to fund an economic development project.

Rural proofing

49. The proposal for a vote will be applied equally for all ratepayers potentially liable for a Business Rate Supplement whether they are in a rural or urban area.

Sustainable development

50. There is no impact on sustainable development of allowing businesses and other ratepayers liable for a Business Rate Supplement to be able to vote on the imposition of the tax to fund an economic development project.

Summary and Implementation Plan

51. In conclusion, the Government has decided that it is not acceptable that there is a democratic deficit in the imposition of a Business Rate Supplement where it currently funds less than a third of the overall project.

52. The Government has therefore decided to amend the Business Rate Supplement Act 2009 to ensure that all future Business Rate Supplement projects, both where they fund more or less than a third of the overall project, will have to be put to the ballot so that liable

businesses can decide whether to impose the Business Rate Supplement upon themselves. Liable businesses will be therefore able to vote for and in effect approve the planned economic development project that they will be funding.

53. The change in the Business Rate Supplement Act 2009 will apply from when the Localism Bill comes into force without the need for further implementation. The Business Rate Supplement Act allows the Government to make regulations covering the procedures for a Business Rate Supplement Ballot. The Government will aim to have this secondary legislation in place for the coming into force of the Localism Bill.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A Post Implementation Review should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A Post Implementation Review 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 Post Implementation Review Plan as detailed below. If there is no plan to do a Post Implementation Review please provide reasons below.

Basis of the 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 impacts cumulatively 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 is practical.
Review objective: 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 administration, 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: It is envisaged that research will be initiated to provide the evidence for the Post Implementation Review. The full scope of this research has yet to be worked up but the focus will extend to whether this policy and other Business Rate policies under the Bill are working as intended or in fact the changes cumulatively are causing distortions in the property market or having other unintended consequences on business behaviour. The evidence from the review should help to inform or refine the application 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 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. For Business Rate Supplement ballots in particular indicators may include: details of future projects that are funded by Business Rate Supplement and the proportion of any funding that was raised in this way; establish how many Business Rate Supplement projects that would, under the ‘do nothing’ option, have been implemented without a ballot. The number of ballots that lead to a proposal being rejected will provide insight into the extent to which the policy might have affected the overall level of local authority investment in economic development. We do not have evidence at present to establish the extent to which the policy would affect local authority decisions as to

whether to use Business Rate Supplement, but it has been assumed that any behavioural effects are likely to be minimal.
Success criteria: This particular policy will be considered a success if where there are Business Rate Supplement proposals made in which the Business Rate Supplement funds less than one third of total project costs and affected ratepayers have the opportunity to accept or reject the proposals democratically. Success of other 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. A general success criteria for the Business Rate Supplement policy as a whole, for example, will be the abilty of local authorities to fund projects of benefit to their local economies.
Monitoring information arrangements: Local authorities do not have a duty to inform the department of any Business Rate Supplement proposals directly but new Business Rate Supplement proposals will inevitably come to the department's attention from local authority reports, because they will have to produce a prospectus each time they propose a Business Rate Supplement which should state how the supplement will contribute towards funding the project. These should contain enough information to monitor the impact of any Business Rate Supplement linked to this policy.
Reasons for not planning a PIR: N/A.

Annex 2: Local authorities that could raise over £5m through a 2p Business Rates Supplement

Levying Authority	Total number of Hereditaments with rateable value over £50,000	RV of BUSINESS RATE SUPPLEMENT chargeable Hereditaments	2p BUSINESS RATE SUPPLEMENT revenue:	Cost of ballot (£2.0 assumption):	Cost of ballot (£6 assumption):
Buckinghamshire	1,600	275,000,000	£5,500,000	£3,300	£9,800
Cambridgeshire	2,500	490,000,000	£9,800,000	£5,000	£15,000
Cumbria	1,400	295,000,000	£5,900,000	£2,700	£8,100
Derbyshire	1,600	275,000,000	£5,500,000	£3,100	£9,400
Devon	2,000	330,000,000	£6,600,000	£4,100	£12,300
Essex	4,200	795,000,000	£15,900,000	£8,500	£25,400
Gloucestershire	1,900	335,000,000	£6,700,000	£3,800	£11,400
Hampshire	4,300	820,000,000	£16,450,000	£8,600	£25,800
Worcestershire	1,800	295,000,000	£5,950,000	£3,500	£10,600
Hertfordshire	4,500	870,000,000	£17,400,000	£9,000	£27,000
Kent	4,700	935,000,000	£18,700,000	£9,500	£28,500
Lancashire	3,000	610,000,000	£12,150,000	£5,900	£17,800
Leicestershire	1,600	380,000,000	£7,550,000	£3,300	£9,800
Lincolnshire	1,800	300,000,000	£6,050,000	£3,500	£10,600
Norfolk	2,300	405,000,000	£8,050,000	£4,500	£13,600
North Yorkshire	1,600	305,000,000	£6,100,000	£3,200	£9,600
Northamptonshire	2,200	480,000,000	£9,650,000	£4,400	£13,200
Nottinghamshire	1,600	355,000,000	£7,100,000	£3,200	£9,500
Oxfordshire	2,500	520,000,000	£10,400,000	£5,000	£15,100
Staffordshire	2,200	440,000,000	£8,800,000	£4,400	£13,200
Suffolk	2,000	415,000,000	£8,300,000	£4,000	£12,100
Surrey	4,300	815,000,000	£16,300,000	£8,600	£25,900
Warwickshire	2,000	400,000,000	£8,000,000	£3,900	£11,700
West Sussex	2,600	545,000,000	£10,850,000	£5,300	£15,800
Birmingham	3,600	715,000,000	£14,250,000	£7,200	£21,600
Leeds	3,300	670,000,000	£13,450,000	£6,600	£19,800
Liverpool	1,800	370,000,000	£7,400,000	£3,500	£10,600
Manchester	2,900	625,000,000	£12,500,000	£5,700	£17,100
Newcastle-upon-Tyne	1,200	280,000,000	£5,600,000	£2,400	£7,200
Sheffield	1,800	385,000,000	£7,650,000	£3,600	£10,700
Trafford	1,300	310,000,000	£6,150,000	£2,700	£8,000
Bristol UA	1,800	375,000,000	£7,500,000	£3,700	£11,100
Cheshire West and Chester UA	1,300	275,000,000	£5,550,000	£2,600	£7,800
Milton Keynes UA	1,200	275,000,000	£5,450,000	£2,500	£7,400
South Gloucestershire UA	900	260,000,000	£5,150,000	£1,900	£5,700

*Data extracted from the ratings list as at 01 April 2010 and are consistent with the statistical release published by the Valuation Office Agency on 26 April 2010.

**Figures are rounded to avoid spurious accuracy.