Localism Bill: Small Business Rate Relief automation

Impact assessment

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Title: Localism Bill: Small Business Rate Relief automation	**Impact Assessment (IA)**
Lead department or agency: Department for Communities and Local Government	**IA No:** DCLG 0050
Other departments or agencies:	**Date: January 2011**
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Harriet Gay - 0303 444 4318

Summary: Intervention and Options

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

Small Business Rate Relief was introduced to counteract the disproportionate effect of business rates on small business as opposed to large ones. The statutory requirement for businesses to apply for Small Business Rate Relief places a burden on both the businesses and local authorities. Furthermore, there is some evidence to suggest that not all eligible ratepayers[1] are claiming the relief, possibly because the burden of submitting the application is too great or due to a lack of knowledge concerning the scheme's existence and eligibility criteria.

Current provisions for Small Business Rate Relief are set out in the Non-Domestic Rating (Small Business Rate Relief) (England) Order 2004 which is made under powers contained in s43 of the Local Government Finance Act 1988. Section 43 (4B) (a) (ii) provides powers for the Secretary of State to prescribe eligibility conditions. Section 43 (4B) (a) (iii) of the Act contains the requirement for eligible ratepayers to submit an application form. Section 43 (4D) makes it a criminal offence to submit a false application.

The preferred option – Option 4 – requires primary legislation to remove the requirement to submit an application form contained in section 43(4B)(a)(iii) and new secondary legislation to amend the eligibility conditions to ensure that all ratepayers occupying properties with rateable values below the relevant threshold have their bills calculated using the small business multiplier.

What are the policy objectives and the intended effects?

The Coalition Agreement contained a commitment to find a practical way to make Small Business Rate Relief automatic. The policy forms part of the wider localism agenda which aims to give power back to communities and local bodies. The aims of the policy are to remove the requirement for ratepayers to submit an application for Small Business Rate Relief and to increase take-up of the relief.

[1] Businesses liable for business rate bill.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)
Do nothing: Keep the same eligibility criteria for Small Business Rate Relief; including the requirement to apply. Option 1: Remove single occupancy criterion[2] and the requirement to apply for relief; Option 2: Automate the multiplier[3] for all below the threshold but retain the single occupancy criterion and application for eligibility for discounts; Option 3: remove the legal requirement to submit an application but keep the single property criterion Option 4: Combine Options 2 and 3. Automate the small business multiplier for all below the thresholds but keep the single property criterion in order to be eligible for a discount while removing the legal requirement to submit an application. This is our chosen option.

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?	Yes

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

[2] Under the current system The rate payer must only occupy 1 property to qualify for SBRR (unless the additional properties are less than £2,600 and cumulatively the rateable values do not exceed £18,000 (£25,500 in London))
[3] The amount of business rate paid is calculated as a function of the rateable value and the multipliers. There are 2 multipliers, the small business rate multiplier for eligible small businesses and the national multiplier – which includes a supplement to pay for small business rate relief. The national multiplier for 2010-11 is 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.

Summary: Analysis and Evidence

Policy Option 1

Description:

Remove the single occupancy criterion and application form.

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate: 27**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		398	**3422**
Best Estimate			297	**2555**

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

The annual costs of this option are estimated at between £297m and £398m. Ratepayers occupying properties above the Small Business Rate Relief rateable value[4] thresholds will have to fund these costs via an increased supplement on the multiplier and will, therefore, receive higher business rates bills.

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

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		401	**3449**
Best Estimate			300	**2582**

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

Previously ineligible or non-claiming ratepayers occupying properties with a rateable value below the Small Business Rate Relief thresholds will receive an additional £300m to £401m in rate relief annually. There will also be a reduced burden on some businesses that under the "do nothing" option would have been required to apply for relief and the local authorities that would have had to process these applications. The annual figures take account of this (See Section 23 in Evidence Base). This applies to any businesses that would have been newly claiming under the current eligibility criteria e.g. start-ups. This option therefore achieves automation by fundamentally changing the nature of the relief from a small business rate relief to a low rateable value relief (low rateable value properties being easily identifiable from the rating list). In effect, in order to ensure that all "small businesses" receive the relief to which they are currently entitled (worth approximately £18m per year), an extra £279m of relief would have to be provided to businesses other than small businesses. This is "deadweight". And since the cost of relief is borne by larger businesses, they would be paying an additional £297m per year in rates in order to provide small businesses with £18m of relief.

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

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

[4] Rateable value is an amount that is thought that a specific property could be rented for annually on one particular day on a free and open market.

The additional cost is calculated on the basis of the rating list as at 01 April 2010 and makes adjustments for properties in receipt of other reliefs before calculating the potential cost of Small Business Rate Relief. No adjustments have been made for the growth/decline of the tax base across future years. The main risk associated with providing business rate relief is that the tax relief would be capitalised into higher rents and benefits will in fact accrue to property landlords and not occupiers.

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

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?			01/04/2012		
Which organisation(s) will enforce the policy?			Local Authorities		
What is the annual change in enforcement cost (£m)?			0		
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?			Yes		
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** n/a	**< 20** n/a	**Small** n/a	**Medium**	**Large** n/a
Are any of these organisations exempt?	No	No	No	No	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[5] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

[5] 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.

Summary: Analysis and Evidence

Policy Option 2

Description:

Automatically apply the lower small business multiplier to all properties below the upper rateable value threshold by removing the sole property criterion and the requirement to apply. However, the single property criterion and application form would still apply in order to qualify for the further discounts (currently for properties with a rateable value below £12k).

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate: 3**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		29	**253**
Best Estimate			22	**186**

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

The burden of funding the Small Business Rate Relief scheme will be shifted onto a smaller group of ratepayers - those occupying hereditaments with rateable values above the Small Business Rate Relief thresholds. Between them this group, comprising the occupiers of some 1.2m properties, will face increased costs of around £22m annually.

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

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		30	**255**
Best Estimate			22	**189**

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

Ratepayers beneath the Small Business Rate Relief thresholds that either were ineligible or were not claiming Small Business Rate Relief for other reasons will no longer contribute to funding the scheme through a supplement on the multiplier and would receive that benefit automatically. The total benefit to this group will be around £22m annually. There would be increased benefit for businesses in the buffer zone[6] not needing to apply for relief (the figures are taken into account in paragraph 23 of the evidence base). Cost would be very much smaller than for option 1 as eligibility for relief would be unchanged.

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

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

[6] The Buffer Zone refers to eligible properties between £12,001 and £18,000 (£25,500 in London) which qualify for the Small Business multiplier. And therefore do not bear the burden of addition relief.

The additional cost is calculated on the basis of the rating list as at 1 April 2010 and makes adjustments for properties in receipt of other reliefs before calculating the potential cost of Small Business Rate Relief. No adjustments have been made for the growth/decline of the tax base across future years. The main risk associated with providing business rate relief is that the tax relief would be capitalised into higher rents and benefits will in fact accrue to property landlords and not occupiers. There would be no extra costs for business.

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

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England			
From what date will the policy be implemented?			01/04/2012			
Which organisation(s) will enforce the policy?			Local billing Authoritues			
What is the annual change in enforcement cost (£m)?			0			
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:**		**Non-traded:**	
Does the proposal have an impact on competition?			Yes/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** n/a	**< 20** n/a	**Small** n/a	**Mediu m**	**Large** n/a	
Are any of these organisations exempt?	No	No	No	No	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[7] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	

[7] 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.

Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues	No	

Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	

Sustainable development Sustainable Development Impact Test guidance	No	

Summary: Analysis and Evidence

Policy Option 3

Description:

Remove the legal requirement to submit an application for Small Business Rate Relief but retain the current eligiblity criteria.

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

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			18	**151**

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

The additional cost of providing relief on non-claiming businesses in qualifying properties. This is estimated roughly at £18m, as the amount of unclaimed relief forecast for 2010-11, as local authorities are likely to be able to gauge reasonably well who is and is not eligible for small business rate relief. The cost would be borne by ratepayers occupying hereditaments above Small Business Rate Relief thresholds – as for Options 1 and 2.

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

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			18	**154**

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

The additional benefit of relief being received by non-claiming businesses in qualifying properties. This is estimated roughly at £18m, as the amount of unclaimed relief forecast for 2010-11, as local authorities are likely to be able to gauge reasonably well who is and is not eligible for small business rate relief. The figures take into account the benefit for businesses of no longer having the requirement to fill out an application form (see section 23 in the Evidence Base). This applies to any businesses that would have been newly claiming under the current eligibility criteria e.g. start-ups.

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

This will remove the legal requirement for businesses to submit an application form and increase take-up rates.

Key assumptions/sensitivities/risks | **Discount rate** | 3.5

The estimated costs of this option are based on the difference between the projected amount that will be claimed for 2010-11 against the estimated amount that is thought 'claimable': £18m. As such there is a risk that billing authorities may be over- or under-cautious in their granting of relief which may increase or decrease the cost of this option. There would be no extra costs for business.

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?			Options		
From what date will the policy be implemented?			01/04/2012		
Which organisation(s) will enforce the policy?			Local Authorities		
What is the annual change in enforcement cost (£m)?			0		
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** n/a	**< 20** n/a	**Small** n/a	**Medium**	**Large** n/a
Are any of these organisations exempt?	No	No	No	No	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[8] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	

[8] 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.

Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

Summary: Analysis and Evidence — Policy Option 4

Description: Automate the multiplier (small business multiplier) for all below the thresholds and remove the requirement for application, while maintaining the single occupancy criteria and relevant thresholds for discounts. The relevant billing authority would be given the power to decide whether the criteria for Small Business Rate Relief has been met.

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: 3

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	**Optional**
High	Optional	47	**404**
Best Estimate		39	**337**

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

The burden of funding the Small Business Rate Relief scheme will be shifted onto a smaller group of ratepayers (see paragraph 3 in the Evidence Base) - those occupying hereditaments with rateable values above the Small Business Rate Relief thresholds. Between them this group will face increased costs of around £22m annually. There will be additional cost of providing relief to the non-claiming businesses in qualifying properties. This is estimated roughly at £18m, as the amount of unclaimed relief forecast for 2010-11, as local authorities are likely to be able to gauge reasonably well who is and is not eligible for small business rate relief. See Evidence base for further details. This is our chosen option.

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	**Optional**
High	Optional	47	**407**
Best Estimate		40	**340**

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

Ratepayers beneath the Small Business Rate Relief thresholds that were either ineligible or were not claiming Small Business Rate Relief for other reasons will no longer contribute to funding the scheme through a supplement on the multiplier. The total benefit to this group will be around £22m annually. Additionally, the benefit of the relief to the non-claiming businesses in qualifying properties is estimated roughly at £18m, as the amount of unclaimed relief forecast for 2010-11, as local authorities are likely to be able to gauge reasonably well who is and is not eligible for small business rate relief. The figures take into account the benefit for businesses of no longer having the requirement to fill out an application form (see section 23 in the Evidence Base). This applies to any businesses that would have been newly claiming under the current eligibility criteria e.g. start-ups.

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

This will remove the legal requirement for businesses to submit an application form and increase take-up rates. Reducing the administrative burden on small businesses.

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

The additional cost is calculated on the basis of the rating list as at 1 April 2010 and makes adjustments for properties in receipt of other reliefs before calculating the potential cost of Small Business Rate Relief. No adjustments have been made for the growth/decline of the taxbase across future years. The main risk asociated with providing business rate relief is that the tax relief would be capitalised into higher rents and benefits will in fact accrue to property landlords and not occupiers. The additional estimatesd costs of this option are based on the difference between the projected amount that will be claimed for 2010-11 against the estimated amount that is thought 'claimable'; £18m. As such there is a risk that billing authorities may be over or under cautious in their granting of relief which my increase or decrease the cost of this option. See paragraph 53 in evidence base for more detail. There would be no extra costs for business.

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

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?			01/04/2012		
Which organisation(s) will enforce the policy?			Local billing Authoritues		
What is the annual change in enforcement cost (£m)?			0		
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:** None	**Benefits:** N/A	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro** n/a	**< 20** n/a	**Small** n/a	**Medium**	**Large** n/a
Are any of these organisations exempt?	No	No	No	No	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[9] Statutory Equality Duties Impact Test guidance	No	24
Economic impacts		

[9] 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.

Competition Competition Assessment Impact Test guidance	No	24
Small firms Small Firms Impact Test guidance	No	24

Environmental impacts		
Greenhouse gas assessment	No	24
Wider environmental issues	No	24

Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	23
Human rights Human Rights Impact Test guidance	No	23
Justice system Justice Impact Test guidance	No	24
Rural proofing Rural Proofing Impact Test guidance	No	24

Sustainable development Sustainable Development Impact Test guidance	No	24

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	http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/nondomesticrates/
2	http://www.communities.gov.uk/publications/localgovernment/smallbusinessmethod
3	http://www.voa.gov.uk/publications/statistical_releases/VOAStatisticsReleaseCompiledfinal.pdf
4	http://www.legislation.gov.uk/ukpga/2003/26/section/61
5	http://www.communities.gov.uk/documents/localgovernment/pdf/155550.pdf
6	The Impact of Rates on Businesses 1995
7	1998 Modernising Local Government Finance Green Paper
8	http://www.communities.gov.uk/publications/corporate/statistics/financialstatistics202010

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	39m	39m	39m	39m	39m	39m	39m	39m	39m	39m
Total annual costs	39m	39m	39m	39m	39m	39m	39m	39m	39m	39m
Transition benefits										
Annual recurring benefits	40m	40m	40m	40m	40m	40m	40m	40m	40m	40m
Total annual benefits	40m	40m	40m	40m	40m	40m	40m	40m	40m	40m

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

Evidence Base (for summary sheets)

Background

Business Rates

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[10] 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 rate 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 – which includes a supplement to pay for small business rate relief. The national multiplier for 2010-11 is 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 Retail Price Index 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. 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.

Small Business Rate Relief

5. Small Business Rate Relief was introduced in 2005 to counteract the disproportionately large impact that business rates had on small businesses in comparison to larger organisations. This was evidenced by research *The Impact of Rates on Businesses* published by the Department of Environment in 1995.

Eligibility criteria

6. As a proxy to identify small businesses, Small Business Rate Relief uses the eligibility criteria of single occupancy and rateable value thresholds. This is on the basis that smaller businesses are unlikely to have multiple properties or have higher rateable value properties.

7. Before the introduction of Small Business Rate Relief, the 1998 Modernising Local Government Finance Green Paper suggested various ways to target the relief, including taking account of turnover, employers' National Insurance Contributions, or excluding certain types of property clearly not occupied by small firms, such as telecommunications masts. However, these ideas were rejected as all would have involved considerable effort by both

[10] Local Government Financial Statistics England No. 20 2010 which can be found at: http://www.communities.gov.uk/publications/corporate/statistics/financialstatistics202010

ratepayers and billing authorities to show that any criteria had been met and neither turnover nor National Insurance Contributions would have guaranteed a complete measure of the ‘smallness’ of a business.

8. The current Small Business Rate Relief eligibility conditions which a business must satisfy are as follows:

   a) The first condition is that the business occupies only one property. However, in assessing whether that condition is met the business's occupation of any additional properties will be disregarded where each of the additional properties have a rateable value of no more than £2,600, and the total rateable value of all of the properties occupied by the business is less than £18,000 (or £25,500 in Greater London).

   b) The second condition is that the rateable value of the property in respect of which relief is sought is less than £25,500 (if situated in Greater London) or £18,000 (if situated outside Greater London).

   c) The third condition is that the business has made an application for relief to its local authority. The application must be in a prescribed form and must be made by a particular date.

Application

9. Billing authorities generally hold a name for occupiers of properties in their area. However, authorities have no formal way of confirming whether a business occupies an additional property in any of the other 325 billing authority areas in England (which would disqualify the ratepayer from receiving Small Business Rate Relief).

10. Ratepayers are therefore currently required to apply for the relief by filling in a one page form declaring that they meet the single property and threshold criteria. That requirement is set out in primary legislation and it is a criminal offence to submit a false statement in application (Local Government Act 2003 s61 (4D)).

Funding of the scheme

11. The scheme is funded by all other rate payers who are not claiming the relief: their rates are calculated using the national multiplier (2010-11 41.4p) which includes a supplement covering the estimated cost of small business rate relief. The 2010-11 supplement is 0.7p per pound of rateable value.

Level of Relief

12. All businesses meeting the above Small Business Rate Relief criteria are eligible to have their rates calculated using the small business rates multiplier.

13. Additionally, properties with rateable values of less than £6,000 are entitled to 50 per cent relief. Properties with rateable values between £6,000 and £12,000 receive tapered relief decreasing, on a sliding scale equivalent to 1 per cent for every £120 increase in rateable value, from 50 per cent to 0 per cent. The table below provides details of the difference Small Business Rate Relief makes to bills at a range of rateable values.

Rateable Value (£)	Bill With Relief (£)	Bill Without Relief (£)	Saving from Small Business Rate Relief (£)
6,000	1,221.00	2,484.00	1,263.00
9,000	2,747.25	3,726.00	978.75
15,000	6,105.00	6,210.00	105.00
30,000	12,420.00	12,420.00	0.00

Problem under consideration

14. The statutory requirement for businesses to make an application in order to receive Small Business Rate Relief, places a burden on both businesses and local authorities. Furthermore, it is not clear that all eligible ratepayers are claiming the relief, either because the burden of submitting the application is too great or due to lack of knowledge concerning the scheme's existence and eligibility criteria.

Policy objectives

15. The Coalition Programme for Government committed to find a practical way of making Small Business Rate Relief automatic. This would remove from businesses the administrative burden of having to apply for the relief and increase the take-up of the relief.

Description of the options considered

Option 1 – Remove the single occupancy criterion and remove the requirement to submit an application form

16. Option 1 proposes to extend eligibility to all properties below the same rateable value thresholds as found in the current scheme, regardless of whether they were occupied by businesses with multiple properties. Since the additional property criterion would no longer apply, the requirement for ratepayers to submit an application could also be removed.

17. Local authorities would be able to identify all eligible businesses, simply on the basis of their rateable value and apply the correct level of relief, thus achieving full automation. However, it would achieve this by targeting the relief differently and therefore fundamentally changing the nature of the scheme, broadening it from being a small business relief scheme to a low rateable value relief scheme.

Option 2 - Automate the multiplier for all below the upper rateable value threshold but retain the single occupancy criterion and application for eligibility for discounts for properties below the lower threshold (currently £12k).

18. Option 2 proposes that the small business rate multiplier would be automatically applied to all properties, regardless of whether they were occupied by a business with multiple properties, below the threshold. However, the single property criteria and application form would still remain in order to be eligible for a 'discount' (50 per cent below £6,000 and 50 per cent between £6,001 and £12,000).

19. This option would retain the targeted nature of the relief, but allow automation to an extent by ensuring that properties with a rateable value beneath the Small Business Rate Relief thresholds are not contributing to the funding of the scheme.

Option 3 - removal of the legal requirement to submit an application but keep the single property criterion

20. Option 3 proposes to remove the legal requirement to submit an application form but without removing the current single property eligibility criterion. Local authorities would therefore grant the relief to whichever businesses, in their judgement, met those criteria. There would be no change required for those already receiving Small Business Rate Relief, but the relevant authority would need to satisfy themselves as to whether a new ratepayer taking on a property met the eligibility criteria. Local authorities will already have procedures in place for contacting new ratepayers in connection with their rating liability – both to establish the identity of the occupier and for billing purposes. Removal of a separate statutory Small Business Rate Relief application process will provide local authorities with the flexibility to develop processes for determining Small Business Rate Relief eligibility which better fit with their day-to-day administration of business rates.

21. The exact method by which local authorities choose to achieve this would be left to their discretion in line with the localism agenda.

Option 4 – Combination of Options 2 and 3 (Chosen Option)

22. This would mean that:
- Properties below the threshold of £18,000 rateable value (£25,500 rateable value in London) would automatically receive the small business rate multiplier regardless of the number of properties that the rate paying business occupied (and without the need to submit an application).

- The single property criterion would still apply in order to qualify for further relief (See paragraph 18). However, the legal requirement to submit an application would be removed, and the relevant billing authority given the power to decide whether the criteria has been met. The exact method by which local authorities choose to achieve this would be left to their discretion in line with the localism agenda.

Cost and benefits of each option

23. All four options remove the requirement for some businesses to apply for relief. For Option 1, no hereditaments need apply. For Options 2 only hereditaments seeking to benefit from the relief, as opposed to the lower multiplier, need apply. For Options 3 and 4 the legal requirement for an application would no longer be in place. Therefore, there would be a cost saving; however, because the other criteria remain in place the billing authority would need to find an appropriate way of verifying eligibility for further relief. Therefore the saving would be as for Option 2. There is therefore an associated cost saving for business. This saving is estimated to be around £3.1m a year for Option 1 and £0.3 million a year for Options 2, 3 and 4. This is based on the following assumptions:

1) Businesses need only apply for Small Business Rate Relief once - existing businesses that have already made an application remain eligible until they no longer meet the eligibility criteria. Therefore, only new businesses need apply.

2) According to the National Non-Domestic Rates 1 2009/10 form, there are around 487,000 hereditaments benefiting from the Small Business Rate Relief scheme, around 50,000 of which are claiming only the lower multiplier. If we assume that there is 20 per cent churn amongst these properties then around 95,000 hereditaments would need to apply to benefit from the scheme, 10,000 of which would have had to apply for the lower multiplier only.

3) Consultations with the Federation of Small Businesses have suggested that the removal of this requirement would save the average small business one hour of a junior manager's time.

4) Based on the documentation that accompanies the Small Business Impact Test the wage rate for a junior manager is £32.12 per hour. This information can be found at the following link: www.bis.gov.uk/sfit

Do Nothing

24. Each year local authorities return National Non-Domestic Rates forms[11] which provide details of the total Small Business Rate Relief claimed and the amount raised by the supplement on the multiplier, charged to ineligible businesses in order to fund the relief. The table below shows the total value of Small Business Rate Relief claimed nationally in each year since the scheme was first implemented in 2005-06. The amounts for 2010-11 are forecasts because outturn data are still being collected.

Table 1: Total Small Business Rate Relief **claimed each year.**

Financial Year:	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11 (B)**
Small Business Multiplier(p):	41.5	42.6	44.1	45.8	48.1	40.7
Relief Granted (£m):	201.8	237.0	259.0	298.0	333.1	317.2
Percentage Increase from 2005-06 (real terms):	n/a	14%	21%	34%	42%	60%

(B) Forecast from National Non-Domestic Rates 1 return.

25. The amount of Small Business Rate Relief claimed has seen nominal increases every year since the scheme was introduced in 2005-06, to a forecast value of £317.2m in 2010-11. Furthermore, after adjustments to the small business multiplier which is changed annually to reflect movements in the retail price index, the amount of relief claimed is also seen to have risen in real terms. The number of hereditaments claiming the relief has also been rising but whether either of these trends was caused by increasing awareness of the Small Business Rate Relief scheme, increased numbers of eligible hereditaments being added to the rating lists or something else, remains unclear.

26. Although there is no data source available to establish exactly the number of hereditaments which should be eligible for Small Business Rate Relief, given the current scheme criteria, estimates have been made of the percentage of eligible hereditaments that claim the relief. Since the value level of the relief depends on the rateable value, the percentage estimates of take-up by the total value of relief that could be claimed by eligible ratepayers is different to the estimates of the percentage take-up by number of eligible ratepayers.

Table 2: Estimates of percentage take-up of Small Business Rate Relief (number claiming)

Year:	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Number of hereditaments actually claiming Small Business Rate Relief (000s):	396	433	453	487
Number of hereditaments eligible (000s):	575	575	575	575
Percentage of estimated eligible actually claiming:	**69%**	**75%**	**78%**	**84%**

*****http://www.communities.gov.uk/documents/statistics/xls/1600092.xls

[11] http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/nondomesticrates/

Table 3: Estimates of percentage take-up of Small Business Rate Relief (value of relief claimed)

Year:	2005-06	2006-07	2007-08	2008-09
Estimate of the total value of relief that could be claimed if all eligible ratepayers were to claim (£m):	295	300	315	325
Actual value of relief claimed (£m):	202	237	259	298
Percentage take-up:	**69%**	**78%**	**83%**	**92%**

*http://www.communities.gov.uk/documents/localgovernment/pdf/14068801.pdf

27. The above estimates[12] imply that, since the take-up by value of relief is greater than by the number claiming, the ratepayers who gain the least from the Small Business Rate Relief scheme are those that are most likely not to apply for the relief.

<u>Option 1</u> - Remove the single occupancy criterion and remove the requirement to submit an application form

28. Under this option all eligible ratepayers would receive the relief to which they would be entitled and would do so without having to submit an application. However, it would achieve that by targeting the relief differently, namely by removing the single occupation criterion, which would mean that, for example, retailers with multiple stores (large chains), cash machines, etc would be eligible provided that they were below the threshold.

29. If the single occupancy criterion were to be removed then many more hereditaments would become eligible for Small Business Rate Relief (approximately half a million more which would almost double the number eligible); and by making the relief automatic the cost of the scheme would increase immediately on implementation as bills to these hereditaments would be reduced by up to half. The extent to which the cost increased would still depend on whether there were any exemptions applied to the hereditaments which could receive Small Business Rate Relief.

30. By adapting the methodology that was used to estimate the eligibility of the current Small Business Rate Relief scheme (as above), it was possible to model the potential cost of Option 1. The main exemption would still be the rateable value threshold and the current value of relief made on this basis is straightforward to calculate directly from the ratings list. However, there are other sensible exemptions that would also be applied and these involve making adjustments to the ratings list to account for the points discussed below.

31. It might be considered that since Small Business Rate Relief is designed to support small businesses that ratepayers should only be eligible if they are operating a business out of the property in question and as such empty properties are considered ineligible. Furthermore, at present there is a hierarchy of reliefs which mean a hereditament can only receive a single rate relief at any time and that Charity, Community Amateur Sports Club and rural rate relief all take precedence over Small Business Rate Relief. This means that if these hereditaments are eligible for any of the above they would not receive additional reductions due to Small Business Rate Relief.

[12] Based on the methodology outlined here: http://www.communities.gov.uk/publications/localgovernment/smallbusinessmethod

Table 4: Number of hereditaments claiming mandatory reliefs and therefore ineligible for Small Business Rate Relief

	Number claiming the relief as at 31 December 2009 (000s)
Mandatory Reliefs	
Charity	79.1
Rural village shop	6.1
Partly occupied	0.9
Empty premises	230.1
Community amateur sports clubs	3.4
Total	**319.5**

32. All of the above reliefs would exempt hereditaments from receiving Small Business Rate Relief. The cost of Option 1 was based on the rating lists maintained by the Valuation Office Agency as at 1 April 2010[13] but adjusted for these exemptions by removing from the lists a number of hereditaments at random. This process of removing hereditaments is based an assumption that every hereditament is equally likely to be empty, occupied by a charity, a Community Amateur Sports Club or eligible for rural relief due to lack of additional information concerning the actual distribution of these properties.

33. A subset of the rating list, without these exempt properties, was used to calculate the bill with and without Small Business Rate Relief in order to estimate the total cost of Option 1. This was compared against the forecast cost of Small Business Rate Relief from the do nothing scenario to estimate the additional cost of Option 1. Since this option would no longer target the relief at businesses occupying a sole property some of the additional cost would go towards supporting ratepayers who would at present be ineligible. By comparing this cost with the eligibility modelling, an estimate of the amount of relief that would be available to ratepayers who are currently not being targeted can be made. This is the excess cost of automating Small Business Rate Relief by removing the single occupancy criterion.

Table 5: Cost of Option 1

		Cost (£ million)			Supplement (p)	
Option		*Total relief*	*Additional*	*Excess cost*	*Total*	*Additional*
Do Nothing	Current Scheme	317	n/a	n/a	0.7	n/a
1	No application, remove the single occupancy criteria	614	297	279	1.2	0.5

34. The cost of Option 1 is significantly larger than the current scheme and much of the additional £295m cost could be classed as excess cost because it is not expected to benefit ratepayers occupying single hereditaments. Since Small Business Rate Relief is funded by other businesses the supplement on the multiplier paid by ineligible hereditaments (in Option 1 this refers primarily to those above the Small Business Rate Relief rateable value thresholds) would have to increase. It is estimated that to cover the cost of Option 1 would require an additional 0.5p in every pound of rateable value, increasing the total supplement to 1.2p.

[13] Consistent with the following statistical release:
http://www.voa.gov.uk/publications/statistical_releases/VOAStatisticsReleaseCompiledfinal.pdf

Table 6: Cost of Option 1 with previously empty properties claiming Small Business Rate Relief

Option		Cost (£ million)			Supplement (p)	
		Total relief	*Additional*	*Excess cost*	*Total*	*Additional*
1	No application, remove the single occupancy criterion but empty properties also receive relief	715	398	380	1.5	0.8

35. Option 1 could potentially cost up to £100m more if the empty properties that were excluded are considered as eligible. The time limited nature of the empty property relief scheme may make it more beneficial to a landlord to, for example, use a hereditament that would otherwise be empty for storage and therefore occupy the property themselves. With no application for Small Business Rate Relief or single occupancy criteria these would receive Small Business Rate Relief. All of this would be considered excess cost since empty properties would not be eligible for Small Business Rate Relief in the do nothing scenario. The nature of the empty property relief available will affect the behaviour of landlords when their properties become empty. However, it is likely that unless the number of empty properties alters dramatically in future, that the total cost of Option 1 would be within the range of £615m to £715m, an additional cost of £295m to £400m.

36. The benefits to these newly eligible hereditaments are equivalent to the costs to those that are ineligible. The relief is simply a transfer of the tax burden from one group of ratepayers to another.

Option 2 - Automate the multiplier for all below the threshold but retain the single occupancy criteria and application for eligibility for discounts

37. Under this option the small business multiplier would be automatically applied to all properties (i.e. regardless of whether they were occupied by a business with multiple properties) below the rateable value threshold (currently £18,000 outside London and £25,500 in London). In effect, it would create a multiplier for low value properties. This option would fully address the issue of low take up in the ‘buffer zone’, i.e. those properties whose rateable value makes them eligible for the lower multiplier, but not eligible for any further discount in liability. However, eligible ratepayers with rateable values below the buffer zone would still need to submit an application to claim a discount only helping relevant businesses to the extent that they would automatically receive the benefit of the lower multiplier.

38. The costs and benefits of Option 2 apply to the same ratepayers as would be affected in Option 1. The difference is that the discount is not automatically given to these hereditaments because the single property criterion would remain and there would still be a requirement to submit an application, which would mean that overall the total value of Small Business Rate Relief is unchanged from the do nothing scenario. The impact of this option is instead to shift the burden of funding the relief on to a smaller group of ratepayers, increasing the cost to each of them individually.

39. The supplement on the multiplier currently raises 0.7p for every pound of rateable value which is ineligible for Small Business Rate Relief. The effect of allowing all hereditaments beneath the Small Business Rate Relief thresholds to pay the small business multiplier automatically is to reduce the overall amount of rateable value on which to charge the supplement. The product of the newly eligible rateable value and the supplement on the multiplier would therefore be the additional cost of funding the relief to be met by ineligible ratepayers.

40. It was estimated, using broadly the same analysis as for Option 1 above, that £3,085m rateable value would no longer be required to pay the supplement on the multiplier. As with

Option 1, changing the hereditaments that are exempt from being eligible changes the final results. If empty properties were also to be left out of paying the supplement, because an even smaller pool of rateable value would be funding the relief, the additional cost that would have to be funded by the ineligible ratepayers would rise to £30m.

Table 7: Cost of Option 2 to ineligible ratepayers

	Total Rateable Value (£m)	Rateable value eligible for small business multiplier (£m)	Rateable value ineligible for small business multiplier (£m)	Cost to ineligible ratepayers (£m)	Change in the Small Business Rate Relief supplement (p)
Do nothing	56,696	3,685	53,015	0	0
Excluding empties	56,696	6,770	49,925	22	0.04
Including empties	56,696	7,880	48,820	29	0.06

41. The effect on the supplement is fairly small and when empties are excluded would not be enough in isolation to increase the actual supplement which is rounded to the nearest 0.1p. However, over time this would lead to a shortfall in the amount raised by the supplement to fund the Small Business Rate Relief scheme and it would need rounding up in order to recover the difference. As such, on average, in 4 of every 10 years it is expected that the supplement would be 0.1p higher than in the do nothing scenario, rising to 6 of every 10 years if properties that would otherwise be empty are claiming Small Business Rate Relief.

42. As in Option 1 the benefits are exactly equivalent to the costs because this simply transfers the burden of funding Small Business Rate Relief away from one group of ratepayers who are currently below the thresholds but ineligible, to another group who are required to pay the higher supplement.

<u>Option 3</u> - Removal of the legal requirement to submit an application but keep the single property criterion

43. This option would place the decision as to whether a ratepayer met the single occupancy criteria on the local authority. Authorities would therefore be able to grant the relief without an application from the ratepayer. This would provide local authorities with the flexibility to use their local knowledge and develop processes for determining Small Business Rate Relief eligibility which better fits with their day-to-day administration of business rates. This option would also be consistent with the spirit of the localism agenda. Local authorities would, however, still need robust systems in place with appropriate controls in order to satisfy their auditors on the granting of the relief. These controls would be decided by the relevant authority to fit with their administrative systems and requirements of the relevant auditor.

44. In removing the requirement for an application but leaving the eligibility criteria unchanged the cost of the scheme is likely to fall somewhere between the current scheme cost and the cost if 100 per cent take-up of eligible hereditaments were achieved. By removing the burden on businesses to submit an application it should be simpler for local authorities to establish who is eligible and adjust their rates bill accordingly. In so doing it is believed that take-up would be increased.

45. The eligibility modelling that has been undertaken suggests that if all eligible hereditaments were to receive Small Business Rate Relief the total cost would increase to around £335m. This is a net increase on the forecast value of relief for 2010-11 (£315m) of £18m. The increase in the supplement that would be required to fund this is fairly low (0.03p) but there

is no excess cost associated with increasing take-up because the relief is still targeted at the same ratepayers as in the do nothing.

46. Once a business is registered on a local authority's system as being eligible they remain there until they no longer meet the eligibility criteria. This may occur either because the rateable value of the hereditament in question rises above the Small Business Rate Relief thresholds, or because the ratepayer informs the authority that they are no longer eligible.

47. This option is therefore unlikely to reduce the value of relief because local authorities will have to make no change to these systems. The value of relief may increase in cases where local authorities are confident that a ratepayer is eligible but have not received an application at present. It also simplifies the process for new ratepayers, making it easier for the local authority to provide the relief to them immediately, without the requirement for an application. As such the cost of the option is likely to be up to £18m as local authorities approach 100 per cent take-up.

Table 8: Sensitivity analysis around the take-up assumption

	£ million		
Percentage of hereditaments beneath the Small Business Rate Relief thresholds meeting sole occupancy criteria	Total Cost of Relief (100% take-up)	Additional Cost	Multiplier effect (p)
55%	314	-3	-0.0065
58.7%	335	18	0.03
60%	342	25	0.05
65%	371	53	0.10
75%	427	110	0.21

48. The main assumption used in modelling the total value of relief that would be available if all eligible hereditaments were to claim Small Business Rate Relief is based on survey data from 2004. This means that there is some uncertainty around how accurate the eligibility estimates are, given the time that has passed and changes to the scheme that have taken place since the survey was conducted. The table above shows the effect of altering the assumption of the percentage of hereditaments beneath the Small Business Rate Relief thresholds that are occupiers of a single property in the modelling on the cost of achieving 100 per cent take-up.

<u>Option 4</u> – Combination of Options 2 and 3

49. Option 4 is a combination of Option 2 and 3. This would mean that:

- Properties below the current threshold of £18,000 RV (£25,500 RV in London) would automatically receive the small business rate relief multiplier regardless of the number of properties that the rate paying business occupied (and without the need to submit an application)

- The single property criterion would still apply in order to qualify for a further discount. However, the legal requirement to submit an application would be removed. The relevant billing authority being given the power to decide whether the criteria had been met.

50. This would therefore target those in the buffer zone who are thought to be not applying for relief while continuing to target the discounts at small businesses. It also embraces the spirit of localism by lifting restrictions and allowing billing authorities to organise the administration of small business rate relief in the way that is best for local businesses. Billing authorities would automatically calculate rate bills for those eligible using the small business multiplier and, from the bill and the accompanying information, a ratepayer would be clear about both

the eligibility criteria for small business rate relief and the basis on which the bill was calculated. Billing authorities would also continue to promote small business rate relief. There would be no extra costs for business.

51. All the costs relating to Options 2 and 3 would apply for Option 4. Therefore the overall estimated cost stands at £40m notwithstanding the potential for the cost to be more or less depending on the prudential nature of the local authorities in their application of the cost. The £40m combined cost (provided that local authorities can target the relief and achieve 100 per cent take-up) would lead to a 0.08p increase in the multiplier.

Risks and Assumptions

52. The main assumption concerning the above costs was that they are based on the rating list as at 01 April 2010. These would be the implied costs had the policy option been implemented in the financial year 2010-11 because this is the most recent data source available. Furthermore, changes in the retail price index are used to adjust the multiplier each year and as such the 2010-11 costs are equivalent to, other things being equal, deflated costs for future years.

53. An issue with using a single snapshot of the rating list is that it does not capture changes to the tax base. Historically the trend has been for greater numbers of hereditaments and rateable value to be added to the rating list as time passes. There has been no adjustment to account for the possibility of properties coming on to or being removed from the rating list over time.

54. The risk with all interventions into business rates policy is that in some markets, decreasing the burden of business rates will have little or no effect on overall occupancy costs as there will instead be a tendency to increase rents. This will transfer the benefits from ratepayers to landlords.

55. There is a risk that billing authorities may be over or under cautious in their granting of relief which may increase or decrease the cost of this option. However, as set out in paragraph 8, authorities will have no discretion over the eligibility criteria as that will be set out in legislation. Authorities will only be deciding whether that criteria have been met. By removing the need for an application, Small Business Rate Relief will, in effect, be brought into line with other business rate reliefs. Therefore, authorities will be able to grant the relief automatically where they are confident that the conditions are met or request evidence where there is doubt. Authorities will still also promote Small Business Rate Relief with annual bills etc. In addition, as the vast majority of relief is already claimed (which will be further increased once all ratepayers below the threshold receive the lower multiplier) this will mainly only affect new ratepayers.

Administrative Burdens

56. Local authorities are under a statutory duty to bill and collect rates on behalf of the Government. They are provided a fee for this function known as the annual allowance for billing and collection. Within their duties, local authorities promote Small Business Rate Relief and administer applications for Small Business Rate Relief. The measure will automatically give the relief to some ratepayers making the relief easier for authorities to administer. It also, by removing the need for an application, allows authorities to develop processes for determining eligibility for the discount which better fit with their day-to-day administration of business rates and to give the relief to those that haven't made an application, but the authority believes to be eligible. Therefore, this creates no additional burden for authorities.

Health Impact Test

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

Value of offsetting measure

58. The government is not proposing any offsetting measure as Small Business Rate Relief is a revenue neutral, self financing scheme.

EU Requirements

59. The proposal does not relate to any EU legislation.

Human Rights

60. There are two provisions of the European Convention which could be relevant to the proposed amendment to section 43 of the Local Government Finance Act 1988 and, more particularly, to the changes it is being proposed will subsequently be made to the Small Business Rate Relief scheme (for which provision is made in secondary legislation which is made under section 43).

- Article 1 of the First Protocol provides that everyone is entitled to the peaceful enjoyment of his possessions, and may not be deprived of them except in the public interest and subject to the conditions provided for by law and by the general principles of international law. There is an exception for the right of the State to secure the payment of taxes and discretion for the State to impose taxes in the public interest. The Department is confident that this policy is in the public interest and proportionate to the policy aims.

- The second provision is Article 14 of the Convention which provides that the enjoyment of the rights and freedoms set out in the Convention shall be secured without any discrimination. This means that any differential treatment in terms of the right to peaceful enjoyment of property, protected by Article 1 of the First Protocol, including differential treatment for tax purposes, is in principle unlawful. The European Court has, however, consistently said that differential treatment is not unlawful provided that it is objectively and reasonably justified. The Department is confident that for the reasons set out in this impact assessment, implementation of option 4 would be objectively and reasonably justified.

Justice System

61. The initial Screening test was completed and concluded that this policy would not require a full justice impact assessment.

Rural proofing

62. The amendment to Small Business Rate Relief is expected to have broadly equivalent impacts in rural and urban areas.

Equalities

63. The initial Screening test was completed and concluded that this policy would not required a full equalities impact assessment.

Environmental Impacts

64. The policy will not in itself have any effect on greenhouse emissions, or a wider environmental impact.

Competition Assessment

65. The initial Screening test was completed and concluded that this policy would not require a full competition assessment.

Small Business Impact Test

66. Small businesses are the main beneficiaries of this amendment. The amendment will remove the requirement for eligible small businesses to submit an application for small business rate relief and increase take-up of the relief.

Sustainable Development

67. The initial screening test was completed and concluded that this policy would not require a full sustainable development assessment.

Implementation/next steps

68. The Government will seek to implement policy option 4 as soon as possible. This will require primary legislation to remove the legal requirement to submit an application form and changes to the eligibility criteria set out in existing secondary legislation.

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 for 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 ratepayers 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: 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 is 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 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 Rate policies under the Bill as well as other recently implemented rates policies have been/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 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. The policy objective is to remove the burden of having to submit an application form in order to claim small business rate relief and to increase take-up of the relief.
Success criteria: The potential impact of this and the other Business Rate policies under the Bill will be covered by the full review and the respective success criteria will be considered. The success criteria for this particular policy will be whether the administrative burden on businesses in applying for the relief is reduced and whether take-up of the relief is increased.
Monitoring information arrangements: This will be considered as part of the general review of business rates measures mentioned above. However, the necessary estimates of take-up of the relief will build on the existing work of the Department on that issue. All estimated take-up figures are based on modelling assumptions. We would therefore only be able to repeat this modelling once new data had come in, in order to estimate the new take up figures.
Reasons for not planning a Post Implementation Review : N/A