

**EXPLANATORY MEMORANDUM TO**  
**THE NON-DOMESTIC RATING (DESIGNATED AREAS) REGULATIONS**  
**2014**

**2014 No. 98**

1. This explanatory memorandum has been prepared by the Department for Communities and Local Government and is laid before Parliament by Command of Her Majesty.
2. **Purpose of the instrument**
  - 2.1 These Regulations form part of the scheme for local retention of non-domestic rates. The purpose of the Non-Domestic Rating (Designated Areas) Regulations 2014 is to designate areas in relation to which a proportion of the non-domestic rating income (as calculated in accordance with the Regulations) is to be retained by the local authority all or part of whose area falls within the designated area.
3. **Matters of special interest to the Joint Committee on Statutory Instruments**
  - 3.1 None
4. **Legislative Context**
  - 4.1 The non-domestic rating system in England and Wales is established by the Local Government Finance Act 1988 (“the 1988 Act”). The Local Government Finance Act 2012 inserts a new Schedule 7B into the 1988 Act (“the Schedule”) which provides for the local retention of non-domestic rates collected in England.
  - 4.2 Part 10 of the Schedule enables the Secretary of State to make regulations designating areas and providing for a calculation of the non-domestic rating income in respect of hereditaments<sup>1</sup> within a designated area to be disregarded for the purpose of various calculations required under the scheme.
  - 4.3 The Non-Domestic Rating (Designated Areas) Regulations 2014 specify that the designations are to have effect for 25 years from 1st April 2014. This means that paragraph 39(9) of the Schedule has effect. Paragraph 39(9) provides that where regulations specify the years for which a designation has effect, they may not be revoked during that period and amendments which have the effect of altering the boundaries of a designated area, providing for a reduction in the amount that may be disregarded or reducing the period of the designation may not be made to the regulations during that period.

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<sup>1</sup> A hereditament is the unit of property which is the subject of rating.

## **5. Territorial Extent and Application**

5.1 This instrument applies to England.

## **6. European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

7.1 These Regulations form part of the scheme to allow local retention of non-domestic rates (the rates retention scheme). The scheme was introduced on 1st April 2013 to give local government a direct share of local non-domestic rating income and thereby an incentive to promote local growth. This replaced the previous scheme whereby non-domestic rates were collected by local government, paid to central government and redistributed back to local government via the local government finance report<sup>2</sup>.

7.2 Under Schedule 7B to the 1988 Act, non-domestic rates are to be shared between central government and different parts of local government. The proportions at which rates are to be shared between central government and local government are to be set out in the local government finance report for the year and the Government has indicated that this will continue to be set at 50:50.

7.3 As part of its policy to deliver growth, the Government has previously identified several geographical areas designed to help create jobs and create businesses in areas of economic opportunity. These areas have been given greater accountability in exchange for new powers to help deliver growth and jobs in their areas. Through the City Deals Wave 1 process and negotiation with local authorities which form the West of England City Deal area, the Government has agreed to designate 5 Enterprise Areas (across the West of England City Deal area) as areas where local authorities can retain 100% of the growth in non-domestic rates in those areas for a period of 25 years.

7.4 To deliver upon this commitment the Non-Domestic Rating (Rates Retention) Regulations 2013 (S.I. 2013/452) provide that when calculating how much rates income in a local authority area is to be shared between local government and central government, it will disregard the growth in rating income in designated areas. This will then allow the growth in those designated areas to be retained 100% by the billing authority. These Regulations designate the areas in which the 100% disregard will apply and provide rules for calculating the amount to be disregarded.

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<sup>2</sup> For details see Schedule 8 to the Local Government Finance Act 1988 and the Non-domestic Rating Contributions (England) Regulations 1992 (S.I. 1992/3032)

7.5 The areas are designated by regulation 3 using the numbered maps listed in Schedule 1. The maps are available for inspection at the offices of the Secretary of State for Communities and Local Government and the offices of each local authority. Each designated area may comprise several non-contiguous sites and where possible those sites have been shown on a single map for the area. But in some cases it has not been possible to show all the sites in a designated area on a single map, in which case they are shown on more than one map. To provide the necessary certainty to support investment, the designated areas have effect for 25 years from 1st April 2014 (regulation 4).

7.6 In any year, the amount of non-domestic rates income to be disregarded in a designated area is found under Part 1 of Schedule 2 by calculating the non-domestic rating income for the area for the year and deducting a figure representing the baseline income for the area.

7.7 The non-domestic rating income for the area is defined in Part 2 of Schedule 2. It is the amounts credited or charged to the authority's collection fund in respect of the area plus or minus any transitional protection payments made in respect of hereditaments in the area. This ensures that the calculation of the disregarded amount ignores the effects of the transitional arrangements scheme. The non-domestic rating income also excludes any amounts in respect of network hereditaments crossing more than two rating list areas (such as a telecom network) which might otherwise be treated as included in the income.

7.8 The starting figures for the baseline calculations have been provided by local authorities, representing a snap shot of non-domestic rates due in each designated area using the 2013/14 multiplier<sup>3</sup> (i.e. in 2013/14 terms). These figures are shown in the table in Schedule 1. For 2014/15, the baseline figure is then increased in line with the change in the small business multiplier<sup>4</sup> for that year (paragraph 3(2)). This ensures that the baseline is restated in 2014/15 terms and that the local authority do not benefit from growth in rates income on the baseline merely from the increase in the multiplier. For subsequent years (other than in a revaluation year) the resulting figure is again increased in line with the change in the small business multiplier (paragraph 3(3)) for the same reason.

7.9 In a revaluation year the income in the designated area changes because of the general shifts in rates liabilities between sectors and locations. The Regulations provide that the baseline figures are adjusted to reflect the movement of gross rates income in the designated area in the revaluation year (paragraph 4). This ensures that local authorities do not benefit or are not penalised for changes to the income in respect of the baseline due to the revaluation.

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<sup>3</sup> The non-domestic rating multiplier is the rate in the pound by which the rateable value is multiplied to produce the annual rates bill for a property.

<sup>4</sup> The small business non-domestic rating multiplier for a financial year is determined by the Secretary of State in accordance with the provisions contained in Schedule 7 to the 1988 Act.

## **8. Consultation outcome**

8.1 A general consultation for these Regulations has not been undertaken as these Regulations implement an element of the West of England City Deal which has been the subject of a negotiation between Central Government and the West of England authorities and was announced on 5th July 2012.

## **9. Guidance**

9.1 The Department issues guidance to local government on the completion of associated information forms which describe how to estimate non-domestic rating income.

## **10. Impact**

10.1 An Impact Assessment for the rates retention scheme is available from the DCLG website at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/8470/2054063.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8470/2054063.pdf)

10.2 A separate Impact Assessment has not been prepared for this instrument.

## **11. Regulating small business**

11.1 The legislation does not apply to small business.

## **12. Monitoring & review**

12.1 The Government keeps the non-domestic rating system under regular review.

## **13. Contact**

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