EXPLANATORY MEMORANDUM TO

THE NON-DOMESTIC RATING (CHARGEABLE AMOUNTS) (ENGLAND) REGULATIONS 2009

2009 No. 3343

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.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

These Regulations make provision in relation to the transitional arrangements for phasing in increases and reductions in non-domestic rate liabilities over 5 years following the revaluation of the non-domestic rating lists effective on 1st April 2010.

3. Matters of special interest to the Joint Committee on Statutory Instruments

The instrument is subject to the affirmative procedure in both Houses and must come into force on or before 31st December 2009. This is because Regulations made under section 57A of the Local Government Finance Act 1988 ("the 1988 Act") in relation to a particular financial year (in this case 2010-11) are not effective unless they come into force before 1st January immediately preceding the year.

4. Legislative Context

4.1 Section 57A of the 1988 Act, which was inserted by section 65 of the Local Government Act 2003, places a duty on the Secretary of State to make Regulations which provide for a transitional relief scheme in respect of a relevant period. A relevant period is a period of five years beginning on 1st April 2005 or on any 1st April after that date on which non-domestic rating lists must be compiled. These Regulations apply to the relevant period beginning on 1st April 2010.

4.2 Where these Regulations apply, the ratepayer's liability to non-domestic rates (known as the chargeable amount) is determined in accordance with the relevant provisions of these Regulations rather than under sections 43 (occupied hereditaments: liability), 45 (unoccupied hereditaments: liability) and 54 (central rating: liability) of the 1988 Act.

5. Territorial Extent and Application

This instrument applies to England.

6. European Convention on Human Rights

The Minister of State has made the following statement regarding Human Rights:

In my view the provisions of the Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2009 are compatible with the Convention rights.

7. Policy background

7.1 Properties subject to non-domestic rates are re-valued every 5 years and this can result in large increases or reductions in rate bills for some ratepayers. Transitional arrangements to phase in the increases were put in place for the 1990, 1995, 2000 and 2005 revaluations. Section 65 of the Local Government Act 2003 inserted a new provision (section 57A) into the 1988 Act which requires a self - financing transitional scheme to be introduced in connection with each revaluation.

7.2 These Regulations bring the transitional scheme for the 2010 revaluation into effect. The 2010 transition scheme will phase in increases and reductions in rate bills. The scheme will be self-financing within each year (i.e. the cost of limiting increases in bills matches the revenue from limiting reductions) and will run for five years.

7.3 The scheme for 2010 is similar to that for the 2005 revaluation. As with the 2005 scheme, these Regulations ensure that the small business rate relief is applied after the transitional arrangements have been applied but the associated supplement[1] is outside the transitional scheme. This ensures that:

a) qualifying ratepayers[2] subject to the transitional arrangements receive their small business rate relief, and
b) non-qualifying ratepayers[3] subject to the transitional arrangements pay a little extra in order to pay for the small business rate relief.

7.4 These Regulations apply to properties on both local rating lists and to properties on the central rating list maintained by the Secretary of State. The central list is concerned with large network style properties such as gas, water, electricity, railways and telecommunications. The transitional scheme applies equally, in most cases, as regards ratepayers on the central list and those on local rating lists.

7.5 The general principle applied by the scheme is that ratepayers should receive the benefit of transition, or contribute towards transition even when their property changes, but that the transitional calculation remains based on the rateable value of the original property as at 1st April 2010. The value of any later new additions to the property are excluded from transition and rates are payable in full on the amount of the increase in rateable value. However, alterations which reduce the rateable value of the property below the rateable value at 1st April 2010 reduce the amount of transition in proportion to the reduction in rateable value.

7.6 Part 1 of the Regulations sets out the definitions of technical terms, sets the scheme for five years, defines the hereditaments (properties) which are subject to transition and makes provision for special authorities.

7.7 Under regulation 3, hereditaments can be subject to transition where they are shown on the list for 31st March 2010, and also appear for 1st April 2010 and continuously thereafter with a rateable value greater than zero.

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[1] The supplement is the amount of the difference between the national non-domestic rating multiplier and the small business non-domestic multiplier. The supplement is levied on those ratepayers who do not meet the eligibility conditions for small business rate relief and is used to fund the relief.
[2] Ratepayers who satisfy the eligibility conditions for small business rate relief.
[3] Ratepayers who do not satisfy the eligibility conditions for small business rate relief.

7.8 Under regulation 4, in the case of a special authority (City of London), where the multiplier set by the authority is different from the national multiplier, transition is calculated as if the national multiplier applied, but an adjustment is then made for any premium or discount on the multiplier. In effect, any supplement or discount in the City is outside the transitional scheme.

7.9 Part 2 of the regulations deals with calculation of the chargeable amounts, rateable value changes and the effect of part-occupied relief.

7.10 Under regulation 5 the notional chargeable amount is defined as the rateable value at 1st April 2010 multiplied by the small business multiplier for the relevant year. This is the rate bill (ignoring reliefs, the contribution to small business rate relief and subsequent rateable value changes) that the ratepayer would have paid for the relevant year had there been no transitional scheme (notional bill). The small business non-domestic multiplier (D) is used here because the difference between this and the standard multiplier is the supplement paid by ratepayers who do not qualify for small business relief. This supplement is outside transition to ensure that all businesses contribute towards small business relief in proportion to their rateable values.

7.11 The base liability is the ratepayer's starting point under the transitional arrangements and is their rate bill before reliefs for 2009/10 based on the circumstances existing on 31st March 2010. Regulation 6 defines the base liability as the rateable value at 31st March 2010, times the small business non-domestic multiplier for 2009/10. Regulation 7 defines a subsequent year's base liability as the previous base liability times the previous year's appropriate fraction (i.e. the full transitional bill for the previous year).

7.12 The appropriate fraction is the annual limit on increases or reductions. Regulation 8 defines the appropriate fraction as the transitional limit multiplied by an inflation factor and divided by 100. This gives a percentage increase or reduction, adjusted for inflation. Small hereditaments with a rateable value below £18,000 (£25,500 in London) are treated more generously.

7.13 Regulation 9 determines whether a hereditament is subject to transition. If the ratepayer is moving to a higher bill and their notional chargeable amount (the target bill) is more than their base liability multiplied by the appropriate fraction (the transitional bill), then the transitional bill applies. If the ratepayer is moving to a lower bill and their notional chargeable amount (the target bill) is less than their base liability multiplied by the appropriate fraction (the transitional bill), then the transitional bill also applies.

7.14 Regulation 10 determines the chargeable amount for a property that has been identified as being in transition under regulation 9. The transitional bill is the base liability multiplied by the appropriate fraction. To the transitional bill is added the supplement (U) paid by ratepayers who do not qualify for small business relief (for those that do qualify, U is deducted at regulation 10(6)). All other reliefs, such as charitable rate relief and unoccupied property relief, are then applied to the transitional bill.

7.15 Regulation 11 deals with changes in rateable value after 1st April 2010 for hereditaments in transition. This follows the general principle that the transitional calculation is based on the rateable value of the original property as at 1st April 2010. Where the value exceeds the value on 1st April 2010, rates will be payable in full on the amount of the increase in rateable value, in addition to the transitional liability based on the rateable value at 1st April 2010. Where the value is below the value on 1st April 2010, the amount of transition and the rate bill are reduced in proportion to the reduction in rateable value.

7.16 Regulation 12 enables the Valuation Officer to issue a certificated value for 1st April 2010 where the hereditament is altered on that day, to enable a transitional liability to be calculated for 1st April 2010 on the unaltered property. This can then be modified to take account of the alteration on the same basis as alterations effective from later than 1st April 2010.

7.17 Regulation 13 allows the chargeable amount for a property in transition to be apportioned where relief is granted under section 44A of the Local Government Finance Act 1988 (part-occupied relief).

7.18 Part 3 deals with miscellaneous matters such as when a Valuation Officer is required to issue certificates of rateable value in various circumstances, and appeals against such certificates. It also brings to an end the power to issue certificates for the 2000 list. Certificates are required in various circumstances, including where backdating of amendments is limited, to enable transition to work on a basis which is fair to everyone.

7.19 Regulation 14 deals with the situation where the rateable value on 1st April 2010 is incorrect and the Valuation Officer is prevented from backdating the alteration of the list to 1st April 2010. In this case the Valuation Officer will amend the list from a later date but under regulation 11, the ratepayer will pay in full on that increase. Such ratepayers may, therefore, be worse off than if the increase had taken effect from 1st April 2010 as the change in value would then have been taken into account in the transitional scheme. Under regulation 14, the Valuation Officer is required to certify the correct value at 1st April 2010, and the bill will then be calculated as if that value had been shown in the list on 1st April 2010.

7.20 Regulation 15 deals with the situation where the rateable value on 31st March 2010 is incorrect and the Valuation Officer is prevented from backdating the alteration to the 2005 list. As such, the base liability in the transitional scheme would be wrong. The Valuation Officer is required to certify the correct value at 31st March 2010. In the case of a reduction, this will reduce the liability from 1st April 2010. In the case of an increase to the base liability, the transitional bill will only increase from, in effect, the date on which the error was discovered.

7.21 Regulation 16 deals with the situation where a hereditament is split or merged with another before 1st April 2010 and the Valuation Officer is able to amend the 2010 list for 1st April 2010 but not the 2005 list for 31st March 2010. To ensure a "like for like" comparison, the Valuation Officer is required to issue a certificate of the rateable value on 31st March 2010. The transitional liability will be calculated as if the property had actually been split or merged on 31st March 2010, giving a correct transitional base liability.

7.22 Regulation 17 requires the Valuation Officer to issue certificates as soon as practicable after the circumstances come to his attention. Where the certificate is inaccurate, the Valuation Officer can issue a substituted certificate.

7.23 Regulation 18 provides for appeals against certificated values to be referred to the Valuation Tribunal for England if the person(s) interested and the Valuation Officer cannot reach agreement.

7.24 Regulation 19 revokes regulations 36 and 37 on the Non-Domestic Rating (Chargeable Amounts) Regulations 1999, which enable a Valuation Officer to issue certificates of rateable value relevant to the 2000 valuation list.

7.25 Schedule 1 deals with an altered hereditament which was shown in the local list at any time between 1st April 2005 and the 31st March 2010 and was deleted from the list following structural alterations, subsequently reappearing in the list on or after 1st April 2010. This allows the Valuation Officer to issue a certificate of the rateable value for 31st March 2010, which enables transition to be calculated. This schedule only applies where the notional chargeable amount for 2010/11 is less than the base liability and less than the base liability multiplied by the appropriate fraction. It ensures that large ratepayers cannot escape the limits on reductions in bills by merely refurbishing their property during a period which includes the revaluation.

7.26 Schedule 2 deals with splits and mergers of hereditaments. Paragraphs 2 to 5 deal separately with splits and mergers on and after 1st April 2010. In all cases the total liability of the old hereditament(s) (R) is multiplied by the rateable value of the new hereditament (J) and divided by the total of the rateable value(s) of the old hereditament(s) (S). This keeps the transitional liability of the new property in proportion to the liability of the properties from which it was formed.

7.27 Paragraph 6 of Schedule 2 deals with increases or reductions in rateable value subsequent to a split or merger but within the same financial year. Where the value increases following the split or merger, rates will be payable in full on the excess. Where the value falls following the split or merger, the rate bill is reduced in proportion to the reduction in rateable value. These are the same principles that apply to other hereditaments under regulation 11.

7.28 Paragraphs 7 to 10 of Schedule 2 contain the rules for ascertaining notional chargeable amount, base liability and appropriate fraction for a property created by a split or merger and ensure that the property is dealt with on the same basis as any other hereditament in transition, but based on the rateable value at the day it was created rather than 1st April 2010.

8. Consultation outcome

8.1 The Government consulted on the possible arrangements for the transitional scheme between 8 July and 23 September 2009. The consultation paper[4] set out four options:

- option 1: annual caps on both increases and reductions over four years with different caps for small and large properties
- option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills
- option 3: annual caps on both increases and reductions over five years with different caps for small and large properties and
- option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills.

8.2 In the consultation paper, the Government set out its preferred option. This was in response to discussions with stakeholders which suggested that ratepayers would find it helpful if the Government indicated its preferred option as this would assist with business planning. The Government set out that, based on consideration at that time, it preferred option 3. However, the Government made clear that this would be reviewed in light of the consultation responses.

[4] *The transitional arrangements for the non-domestic rating revaluation 2010 in England,* Communities and Local Government, July 2009

8.3 The Government received 62 responses to the consultation. 35 % of respondents were from the Local Government sector, 21 % were from business and sector specific bodies, 19% were from businesses, 18% per cent were from professionals and their representative bodies and 6% were from other ratepayers.

8.4 60 % of respondents were in favour of a transitional relief scheme that ran over five years. By comparison, 23 % thought that the scheme should run over four years. 66 % of respondents favoured a transitional relief scheme funded by downward caps compared to 15% who were in a favour of using a supplement to fund the transitional relief. 68% supported the proposed caps on increases for small properties and 55% support the proposed caps for large properties. The Government considers that, in general, respondents' preferred option would be a five year transitional relief scheme funded through downward caps (option 3).

9. Guidance

The transitional arrangements are implemented by experienced staff working in Billing Authorities. The Department does not intend to issue formal guidance on the transitional arrangements scheme.

10. Impact

An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the Department engaged with stakeholders including the Federation of Small Businesses, and developed an on-line business rates calculator to allow small businesses to calculate their rates bill. Rates bills are calculated by billing authorities.

11.3 The final scheme provides more assistance to small properties. The basis for the final decision on what action to take to assist small business is explained in the impact assessment.

12. Monitoring & review

The Department's annual national non-domestic rating returns from billing authorities monitor the adjustments made to bills by the transitional arrangements. The transitional arrangements are reviewed every five years as part of the revaluation exercise.

13. Contact

Nick Cooper at the Department for Communities and Local Government – Tel 0303 4443610 or email nick.cooper@communities.gsi.gov.uk can answer questions regarding this instrument.

Summary: Intervention and Options

Department /Agency: Communities and Local Government	Title: Impact assessment of options for the 2010 rating revaluation transitional arrangements scheme	
Stage: Final	**Version:** 1	**Date:** November 2009
Related Publications:		

Available to view or download at:
http://www.communities.gov.uk

Contact for enquiries: Nick Cooper **Telephone:** 0303-444-43618

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

At each rating revaluation, all rateable values are reassessed using up to date rental values. This results in some ratepayers seeing increases in their full rates bill and others seeing reductions. Ratepayers have six months notice of these changes. Intervention is necessary if ratepayers are to be protected from large increases and have time to adjust to their new liability. This relief is funded from other ratepayers. There is currently a legal requirement to introduce transitional arrangements.

What are the policy objectives and the intended effects?

The objectives of the transitional arrangements are to provide relief for ratepayers facing large increases in bills as a result of the revaluation and to seek to ensure, as far as is practicable, that the scheme is self financing. The intended effect is that ratepayers facing large increases in liability will have sufficient time to adjust to their new bill.

What policy options have been considered? Please justify any preferred option.

1) Annual caps on both increases and reductions over four years, with different caps for small and large properties. This option retains the structure from the 2005 transitional arrangements.
2) The same caps on increases but funded from a supplement on all other rate bills over four years.
3) Annual caps on both increases and reductions over five years, with different caps for small and large properties.
4) The same caps on increases but funded from a supplement on all other rate bills over five years.

Although the costs of these options are judged against a do nothing scenario, transitional arrangements with associated costs have been introduced at each previous revaluation.

The Government intends to implement option 3. Option 3 ensures the cost of providing transitional relief is met by those who most benefit from the 2010 revaluation. It also provides protection for those still facing large increases in their bills in 2014-15. In addition, the majority of respondents to the consultation on the transitional arrangements for revaluation 2010 in England favoured a scheme that ran over five years and was funded through caps on reductions as opposed to a supplement.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The scheme will be reviewed in 2014 as part of considerations for the 2015 transitional arrangements.

Ministerial Sign-off For final proposal/implementation stage impact assessments:

I have read the impact assessment and I am satisfied that, given the available evidence, (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: Barbara Follett

Date: 16th December 2009

Summary: Analysis and Evidence

Policy Option: 1	Description: Transitional relief over four years using downward caps

COSTS			
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' The transitional relief scheme is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by ratepayers who have reduced rates bills as a result of the revaluation. Over the course of the proposed scheme the cost to ratepayers of relief is estimated at £1,990m present value. The number of hereditaments that face additional costs in the first year is 316,000; in the second year 156,000; in the third year 50,000 and the fourth year 10,000. Option 1 would retain the structure of the 2005 transitional arrangements. Although these costs are judged against a do nothing scenario, transitional arrangements with associated costs have been introduced at each previous revaluation.	
One-off (Transition)	**Yrs**		
£0			
Average Annual Cost (excluding one-off)			
£497.5m		**Total Cost** (PV)	**£1,990m**
Other **key non-monetised costs** by 'main affected groups'			

BENEFITS			
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' Under the transitional relief scheme very large increases in rates bills are capped. The estimated present value of the reduction to the affected ratepayer's bills over the course of the scheme is around £1,990m. The number of hereditaments that have lower costs in the first year is 467,000; in the second year 294,000; in the third year 171,000 and the fourth year 71,000.	
One-off	**Yrs**		
£0			
Average Annual Benefit (excluding one-off)			
£497.5m		**Total Benefit** (PV)	**£1,990m**
Other **key non-monetised benefits** by 'main affected groups' As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.			

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme. (Methodology described in Annexes)

Price Base Year	Time Period Years	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
	4	**£0**	**£0**

What is the geographic coverage of the policy/option?			England		
On what date will the policy be implemented?			1 April 2010		
Which organisation(s) will enforce the policy?			Billing authorities		
What is the total annual cost of enforcement for these organisations?			£0		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			No		
What is the value of the proposed offsetting measure per year?			£0		
What is the value of changes in greenhouse gas emissions?			£0		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large	
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	

Impact on Admin Burdens Baseline (2005 Prices) (Increase – Decrease)

Increase of £ Decrease of £ **Net Impact £**

Key:	Annual costs and benefits: Constant Prices	(Net) Present Value

Summary: Analysis and Evidence

Policy Option: 2	**Description:** Transitional relief over four years using a supplement

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	Transitional relief is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by all other ratepayers. Over the course of the proposed scheme the cost to ratepayers of relief is estimated at £1,990m present value. The number of hereditaments that face additional costs in the first year is 1,240,000; 1,412,000 in the second; 1,536,000 in the third and 1,635,000 in the fourth. Although these costs are judged against a do nothing scenario, transitional arrangements with associated costs have been introduced at each previous revaluation.
£0		
Average Annual Cost (excluding one-off)		
£497.5m		**Total Cost** (PV) **£1,990m**

Other **key non-monetised costs** by 'main affected groups'
There will be a slight increase in administrative costs as a result of changing to a system funded by a supplement for local authorities.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Under the transitional relief scheme very large increases in rates bills are capped. The estimated present value of the reduction to the affected ratepayer's bills over the course of the scheme is around £1,990m. The number of hereditaments that have lower costs in the first year is 467,000; in the second year 294,000; in the third year 171,000 and the fourth year 71,000.
£0		
Average Annual Benefit (excluding one-off)		
£497.5m		**Total Benefit** (PV) **£1,990m**

Other **key non-monetised benefits** by 'main affected groups'
As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme. (Methodology described in Annexes)

Price Base Year 2010	**Time Period Years** 4	**Net Benefit Range** (NPV) **£0**	**NET BENEFIT** (NPV Best estimate) **£0**

What is the geographic coverage of the policy/option?			England	
On what date will the policy be implemented?			1 April 2010	
Which organisation(s) will enforce the policy?			Billing authorities	
What is the total annual cost of enforcement for these organisations?			£0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£0	
What is the value of changes in greenhouse gas emissions?			£0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)
Increase of £	Decrease of £	**Net Impact £**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Summary: Analysis and Evidence

Policy Option: 3, the option to be implemented	**Description:** Transitional relief over five years funded by downward caps.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**	The transitional relief scheme is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by ratepayers who have reduced rates bills as a result of the revaluation. Over the course of the proposed scheme the cost to ratepayers of funding relief is estimated to have a present value of around £2,015m. The number of hereditaments that face additional costs in the fifth year is 3,000. All other years are the same as the four year scheme. Although these costs are judged against a do nothing scenario, transitional arrangements with associated costs have been introduced at each previous revaluation.	
£0			
Average Annual Cost (excluding one-off)			
£403m		**Total Cost** (PV)	**£2,015**

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

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**	Under the transitional relief scheme very large increases in rates bills are capped. This will reduce affected ratepayer's bills by an estimated £2,015m present value over the course of the scheme. The number of hereditaments that have lower costs in the fifth year is 34,000. All other years are the same as the four year scheme.	
£0			
Average Annual Benefit (excluding one-off)			
£403m		**Total Benefit** (PV)	**£2,015m**

Other **key non-monetised benefits** by 'main affected groups'
As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme. (Methodology described in Annexes)

Price Base Year	Time Period Years	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
	5	**£0**	**£0**

What is the geographic coverage of the policy/option?			England	
On what date will the policy be implemented?			1 April 2010	
Which organisation(s) will enforce the policy?			Billing authorities	
What is the total annual cost of enforcement for these organisations?			£0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£0	
What is the value of changes in greenhouse gas emissions?			£0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)
Increase of £	Decrease of £	**Net Impact £**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Summary: Analysis and Evidence

Policy Option: 4	Description: **Transitional relief over five years funded by a supplement.**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	Transitional relief is designed to be revenue neutral within each year, with caps on large increases in rates bills being funded by all other ratepayers. Over the course of the proposed scheme the cost to ratepayers of funding relief is estimated to have a present value of around £2,015m. The number of hereditaments that face additional costs in the fifth year is 1,673,000. All other years are the same as option 2. Although these costs are judged against a do nothing scenario, transitional arrangements with associated costs have been introduced at each previous revaluation
£0		
Average Annual Cost (excluding one-off)		
£403m		**Total Cost** (PV) **£2,015m**

Other **key non-monetised costs** by 'main affected groups'
There will be a slight increase in administrative costs as a result of changing to a system funded by a supplement for local authorities.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Under the transitional relief scheme very large increases in rates bills are capped. The estimated present value of the reduction to the affected ratepayer's bills over the course of the scheme is around £1,990m. The number of hereditaments that have lower costs in the first year is 467,000; in the second year 294,000; in the third year 171,000 and the fourth year 71,000.
£0		
Average Annual Benefit (excluding one-off)		
£403m		**Total Benefit** (PV) **£2,015m**

Other **key non-monetised benefits** by 'main affected groups'
As ratepayers are only given six months notice of their change in liability following revaluation, the capping of very large bill increases allows businesses some certainty in planning their finances, reducing the risk of default or other financial difficulties.

Key Assumptions/Sensitivities/Risks Modelling was based on the rating list provided by the Valuation Office Agency, this list is subject to change as a result of appeals, deletions, splits and mergers all of which may affect the cost of the final scheme. (Methodology described in Annexes)

Price Base Year 2010	**Time Period Years** 5	**Net Benefit Range** (NPV) **£0**	**NET BENEFIT** (NPV Best estimate) **£0**

What is the geographic coverage of the policy/option?			England	
On what date will the policy be implemented?			1 April 2010	
Which organisation(s) will enforce the policy?			Billing authorities	
What is the total annual cost of enforcement for these organisations?			£0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£0	
What is the value of changes in greenhouse gas emissions?			£0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)
Increase of £	Decrease of £	**Net Impact £**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Evidence Base (for summary sheets)

Background

2. Non-domestic rates are a tax on occupiers or, for empty property, owners of non-domestic property. The full bill is a product of the rateable value for the property and the relevant multiplier for the year.

3. Rateable values are, broadly speaking, based upon the rental value of the property and are assessed independently by the Valuation Office Agency. All rateable values are reassessed every five years at a general revaluation. The next revaluation will take effect from 1 April 2010 based upon values at 1 April 2008.

4. In principle, the amount of revenue collected in rates should not change, in real terms, because of the revaluation. Instead, the purpose of revaluation is to redistribute the rates burden having regard to the new values. To achieve this aim, the multiplier is rebased for the first year of the new rating list to account for any overall changes in total rateable value.

5. Nevertheless, within this overall picture there will be some ratepayers seeing increases in bills and some seeing reductions as a result of the revaluation.

Rationale for Government intervention

6. Since 1990, the Government in England has introduced transitional arrangements to phase in changes in bills arising from the revaluation. The rationale is that ratepayers, who are mostly businesses, need time to adjust to large changes in their rates bills. The objectives of the transitional arrangements are:

   - to provide relief for ratepayers facing large increases in bills as a result of the revaluation and
   - to seek to ensure, as far as is practicable, that the scheme is self financing[5] over the life of the list

7. Since 2003, transitional arrangements have been a statutory requirement. Therefore, the issue under consideration is not whether the Government should introduce transitional arrangements but how much transitional relief should be provided and how that should be funded. Nevertheless, to allow consistent analysis, all proposals are assessed against a do nothing scenario (to remove all transitional arrangements).

8. Modelling suggests that the transitional arrangements adopted for the 2005 revaluation would not be appropriate for application to the 2010 revaluation since the scheme would not be self financing over the life of the list.

[5] Self-financing means that any relief given to those in upwards transition should be funded by charging those ratepayers not in upwards transition.

9. Beyond those matters considered in the consultation exercise, the Government is not considering any changes to the detailed structure of the transitional arrangements. However, as explained in *Business Rates Supplements: a white paper*, October 2007 Cm 7230 paragraph 2.77, transitional relief will not be applied to any business rates supplement. Therefore, the regulations will be amended to provide that, where appropriate, the business rate supplement is added in full to the bill payable under the transitional arrangements.

10. In line with these principles, changes in the amount of other forms of rate relief awarded to ratepayers between 2009-10 and 2010-11 (such as changes in small business rate relief or relief from empty property rates), or amounts paid in 2010-11 and 2011-12 which have been deferred from 2009-10, will not fall within the transitional arrangements.

Consultation on proposals

11. The Government consulted on the possible arrangements for the transitional scheme between 8 July and 23 September. The consultation paper[6] set out four options:

    - option 1: annual caps on both increases and reductions over four years with different caps for small and large properties
    - option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills
    - option 3: annual caps on both increases and reductions over five years with different caps for small and large properties and
    - option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills

12. In the consultation paper, the Government set out its preferred option. This was in response to discussions with stakeholder which suggested that ratepayers would find it helpful if the Government indicated its preferred option as this would assist with business planning. The Government set out that, based on consideration at that time, it preferred option 3. However, the Government made clear that this would be reviewed in light of the consultation responses.

13. The Government received 62 responses to the consultation. 35 per cent of respondents were from the Local Government sector, 21 per cent were from businesses and sector specific bodies, 19 percent were from businesses, and 18 per cent were from professionals and their representative bodies.

14. 60 per cent of respondents were in favour of a transitional relief scheme that ran over five years. By comparison, 23 per cent thought that the scheme should run over four years. 66 per cent of respondents favoured a transitional relief scheme funded by downward caps. This compared to 15 per cent of who were in a favour of using a supplement to fund the transitional relief. Taken together these results suggest that, in general, respondent's preferred option would be a five year transitional relief scheme funded through downward caps (option 3). For a fuller review of the responses to the consultation please see [***DN: title of Government's response to the consultation***] at [***DN: weblink***].

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[6] *The transitional arrangements for the non-domestic rating revaluation 2010 in England,* Communities and Local Government, July 2009. This can be found at http://www.communities.gov.uk/publications/localgovernment/nndrrevaluation2010

15. Given the consultation response, and the analysis set out below, the Government intends to implement option 3.

The updated impact assessment

16. The consultation paper setting out the options for transitional relief for revaluation 2010 included an impact assessment of the four options. This final impact assessment is an update to that original document although it is based on the same data that was used to inform the consultation document.

Modelling the options

17. In order to look at the impact of the different options for the new scheme, information on every hereditament[7] in England was provided by the Valuation Office Agency (VOA). This included the current rateable value (i.e. pre-revaluation) and the reassessed value for 1st April 2010 (i.e. post-revaluation) for each of the 1.7m hereditaments in England, as well as geographical and industrial sector information. Businesses were classified as small in 2005 if their rateable value fell underneath one of two thresholds, £21,500 in London or £15,000 elsewhere. These thresholds were uplifted in line with the general revaluation effect, the average increase in rateable values at a national level, to £18,000 and £25,500.

18. Using this information models were constructed to calculate current bills, future rates liabilities (the notional chargeable amount (NCA) in the 'do nothing' scenario) and the percentage change in bill at an individual hereditament level. These were aggregated by region, industry and business size as well as nationally, in order to compare the effects of different models with the 'do nothing' scenario. All the cost figures in this impact assessment come from our transitional relief model.

19. For each year of the scheme, and for each hereditament in the ratings list within each year, the calculation takes the following steps:

- **calculate the base liability:** For the year 2010-11, the base liability (the bill paid in the previous year) is calculated. This is done by multiplying the 2005 rateable value by the 2009-10 small business multiplier
- **calculate the notional chargeable amount (NCA):** this is the product of the 2010 rateable value and the small business multiplier for the appropriate year
- **calculate the year's bill:** for ratepayers in upwards transition, this is the lower of the NCA and the product of the base liability and the appropriate year's caps. For ratepayers in downwards transition, the bill is the higher of the NCA and the product of the base liability and the appropriate year's caps. The current year's bill will be the next year's base liability and
- **calculate transitional relief:** This is the difference between the bill and the NCA, which gives the cost of transition

20. Consider a hypothetical hereditament with RV before revaluation of £10,000. It's bill before revaluation (also its base liability) is calculated as:

Bill before revaluation: £10,000 * 0.481 = £4,810

[7] An hereditament is a rate-paying property.

After the revaluation its rateable value increases to £12,500. Its bill after revaluation, but before transitional relief (also its notional chargeable amount), is calculated as:

Bill after revaluation, before transitional relief: £12,500 * 0.413 = £5,162.5

In 2010/11 the proposed cap for small businesses is 5%. The bill after transitional relief is calculated as:

Bill after transitional relief[8]: £4,810 * 1.05 = £5,050.5

The transitional relief bill for this single property can be calculated as:

Transitional relief bill: £5,162.5 - £5,050.5 = £112

21. There is however some uncertainty regarding these estimates. This stems from our imperfect knowledge of what will happen to the future number and size of hereditaments. For example, we cannot predict whether a particular hereditament paying into the transitional relief scheme will be demolished and thereby ending their contribution to the scheme.

22. The upwards caps were chosen so as to give the same level of protection from bill increases as was offered under the 2005 transitional relief scheme. Given these upward caps, we used the model to calculate either downward caps or a supplement that would ensure the scheme was self-financing.

The effect of the 2010 revaluation

23. In the normal case, the rates bill is found by the product of the rateable value and the relevant multiplier. For the purposes of this impact assessment, we have adopted a small business multiplier for 2010-11 of 41.3p. This is based upon the underlying data used in this impact assessment and sets inflation to zero.

24. Based on the latest results, the effect of the 2010 revaluation (before transitional arrangements and before inflation) by region and sector is shown below.

Table 1: Regional effect of 2010 revaluation (before transitional arrangements, inflation and other reliefs)

Region	Heraditaments	Bill before reval	Bill after reval	Difference	% change
London	280,200	£5,765,000,000	£6,330,000,000	£565,000,000	10%
South West	187,800	£1,790,000,000	£1,840,000,000	£50,000,000	3%
Central List	96	£1,125,000,000	£1,155,000,000	£30,000,000	3%
North East	75,500	£835,000,000	£825,000,000	–£10,000,000	–1%
Yorkshire & Humber	174,500	£1,885,000,000	£1,860,000,000	–£25,000,000	–1%
North West	239,300	£2,655,000,000	£2,590,000,000	–£65,000,000	–2%
East of England	180,800	£2,245,000,000	£2,180,000,000	–£65,000,000	–3%
South East	249,400	£3,530,000,000	£3,345,000,000	–£185,000,000	–5%

[8] Note that this should include an adjustment for inflation but this analysis assumes that inflation is zero, so that it can effectively be ignored for the purposes of this calculation.

West Midlands	182,400	£2,070,000,000	£1,930,000,000	–£140,000,000	–7%
East Midlands	136,300	£1,555,000,000	£1,395,000,000	–£160,000,000	–10%
Total	**1,706,200**	**£23,450,000,000**	**£23,445,000,000**	**–£5,000,000**	**0%**

Table 2: sector effect of the 2010 revaluation (before transitional arrangements, inflation and other reliefs)[3]					
Region	**Heraditaments**	**Bill before reval**	**Bill after reval**	**Difference**	**% change**
Offices	307,000	£5,045,000,000	£5,280,000,000	£235,000,000	5%
Central List	96	£1,125,000,000	£1,155,000,000	£30,000,000	3%
All Others	507,100	£6,465,000,000	£6,620,000,000	£155,000,000	2%
Retail	475,700	£5,805,000,000	£5,835,000,000	£30,000,000	1%
Industry	416,400	£5,005,000,000	£4,555,000,000	–£450,000,000	–9%
Total	**1,706,200**	**£23,450,000,000**	**£23,445,000,000**	**–£5,000,000**	**0%**

25. With all of the options considered, whilst some ratepayers will see their bills increase and some fall, the impact on all ratepayers overall is intended to be neutral. This is because all the options are devised with the objective of being revenue neutral over the life of the rating list.

26. Transitional relief moderates the effect of the revaluation. Therefore, there is a trade off between easing the burden of rapidly increasing bills on businesses (using transitional relief) and ensuring that up to date rateable values are reflected in rate bills (following revaluation).

27. The benefit of staggering large increases in rates bills over several years is that businesses have the time to plan and budget for their new liability. This reduces the risk of putting businesses into financial distress and possibly defaulting on their rates bill payments. The cost of providing this security falls to other ratepayers who do not face such large increases and in some cases this will partially offset the benefits resulting from revaluation.

28. The level of protection offered to ratepayers in upwards transition for the first four years (i.e. the percentage caps on increases) is the same as was offered in the 2005 transitional relief scheme for all of the options outlined below. The difference between these options is the method of funding the scheme and the duration of the transitional arrangements.

[9] The central list contains network properties such as electricity and water supply networks

29. The caps and the associated costs for each year can be seen in the table below:

Table 3: Caps on increases in bills. All caps before inflation.				
	Cap on increases (small properties)	**Cap on increases (large properties)**	**Cost of caps on increases (£ million)**	**Discounted cost of caps on increases (£ million)**
2010-11	5%	12.5%	1,155	1,155
2011-12	7.5%	17.5%	570	550
2012-13	10%	20%	235	220
2013-14	15%	25%	70	60
2014-15	15%	25%	30	25
4 year total (options 1 and 2)			2,030	1,990
5 year total (options 3 and 4)			2,060	2,015

30. The choice between using downward caps or a supplement will affect the number of ratepayers funding the scheme and the actual cost to individual hereditaments. The downward caps options transfer the cost to ratepayers with large bill decreases, leaving the majority of ratepayers to face their true liability from 2010-11. Conversely, the supplement would spread the cost across a greater number of ratepayers in proportion to their rateable value, in 2010-11. More detailed analysis of this issue can be found in the 'Impact on main affected groups' section of this impact assessment.

Option 1: annual caps on both increases and reductions over four years with different caps for small and large properties

31. At each revaluation, the relief has been funded, either in part or in whole, by placing percentage caps on those facing reductions in bills. However, the level of the caps varies for each revaluation. This is because the cost of transitional relief can vary considerably depending upon the shape of the revaluation.

32. For the 2010 revaluation, a transitional relief scheme based upon option 1 would have the following caps on increases and reductions:

Table 4: Option 1 caps on increases and reductions. All caps before inflation.				
	Cap on increases (small properties)	**Cap on increases (large properties)**	**Cap on reductions (small properties)**	**Cap on reductions (large properties)**
2010-11	5%	12.5%	20%	4.6%
2011-12	7.5%	17.5%	30%	6.7%
2012-13	10%	20%	35%	7.0%
2013-14	15%	25%	55%	13.0%

33. These caps have the objective of being self financing within each year, so the cost of protecting businesses in upward transition is met entirely by those businesses who would, in the do nothing scenario, see large reductions in their rates bills. The percentage of all ratepayers subject to these caps on increases and reductions is as follows:

Table 5: Option 1 percentage of all ratepayers with capped increases or reductions

	Cap on increases (small properties)	**Cap on increases (large properties)**	**Cap on reductions (small properties)**	**Cap on reductions (large properties)**	**Not in Transition**
2010-11	21.5%	5.9%	5.9%	12.6%	54.1%
2011-12	14.6%	2.6%	0.6%	8.6%	73.6%
2012-13	8.9%	1.1%	0.1%	2.8%	87.1%
2013-14	3.8%	0.3%	<0.1%	0.6%	95.2%

34. As can be seen from table 5, 4.1 per cent of all ratepayers (3.8 per cent small properties and 0.3 per cent large properties or around 70,900 properties combined) would still be benefiting from caps on increases in 2013-14. Those ratepayers would face an increase to their bill in 2014-15 of, on average, 20 per cent.

35. As can also be seen from table 5, 0.6 per cent of ratepayers (a very low number of small properties and 0.6 per cent large properties or around 10,400 properties combined) would still be subject to caps on reductions in 2013-14. Those ratepayers would see their bill fall in 2014-15 by, on average 14 per cent.

36. The benefits of option 1 are:

- businesses are offered protection against bill increases at the same level as the 2005 scheme. As with all options, 366,500 small properties would benefit from transitional relief in year 1
- it ensures that the cost of providing relief to those most affected by the 2010 revaluation is met by those ratepayers who benefit most from the 2010 revaluation (by adopting caps on reductions in bills)
- it ensures that all ratepayers pay their rates bill based on their rateable value (i.e. without transitional adjustment) for at least 1 year of the 2010 rating list and
- it would be easy to implement. The transitional arrangements are implemented by billing authorities with support from software providers. These stakeholders are familiar with the existing system and have developed and tested systems to accurately calculate rates bills under the transitional arrangements. Option 1 would require little change to those systems

37. Transitional relief does involve some administrative costs when compared with the do nothing scenario, however there are no additional administrative costs associated with option 1 when compared to the current system. This is because option 1 would retain the existing structure from the 2005 transitional arrangements scheme.

38. There are also some possible drawbacks of option 1:

- some ratepayers (around 70,900) will see increases in their rates bills in 2014-15 (averaging about 20 per cent) and some of those will see increases much above that average. Whilst it may be argued that these ratepayers will have 4 years to plan for these increases, the majority will be small business properties who are less likely to have the flexibility to plan for such increases and
- those whose rateable values have fallen significantly at the revaluation, perhaps because the property market in which they operate has also fallen, would have to wait to receive the full benefit of the revaluation reflected in their rates bills

Option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills

39. The cost of delivering the caps on increases in option 2 and the estimated supplement required on all other rate bills to fund that relief is shown in the following table.

Table 6: Option 2 caps on increases and supplement on all other rate bills. All caps before inflation.

	Cap on increases (small properties)	**Cap on increases (large properties)**	**Supplement on all other ratepayers.**
2010-11	5%	12.5%	2.7p
2011-12	7.5%	17.5%	1.1p
2012-13	10%	20%	0.4p
2013-14	15%	25%	0.1p

40. Option 2 is an alternative to option 1 in that the relief is funded by a supplement on the rate bill of all other ratepayers (i.e. those not subject to a cap on increases) rather than by capping reductions in bills. The supplements shown are to ensure the scheme is self financing within each year. They are not cumulative so the supplement would fall after the first year.

41. An alternative approach, which is allowed by the primary legislation, is for the transitional arrangements to be self financing over the life of the scheme but not necessarily within each year. This would allow for an equivalent but constant supplement to be applied to bills for the duration of the four year scheme. Such a constant supplement would equate to 1p and would apply for all four years. However, the constant supplement would generate a funding deficit in the early years and then a surplus in later years. We estimate the deficit in 2010-11 produced by a constant supplement would be £735m.

42. The Government does not believe that the Exchequer or the general taxpayer should fund such a deficit in the short term. To do so would help only those ratepayers who are seeing the greatest reductions at revaluation and deflect finance in the short term from more deserving causes. Therefore, the constant supplement has not been included in the considerations.

43. The benefits of option 2 are that:

- as with all options, it offers the same degree of protection as the 2005 scheme
- it ensures that all ratepayers pay their rates bill based on their rateable value (i.e. without transitional adjustment) for at least 1 year of the 2010 rating list and
- for those ratepayers seeing reductions in rateable value, perhaps because the property market in which they operate has fallen, the benefits will be reflected in their rates bill immediately.

44. The drawbacks of option 2 are:

- as with option 1, some ratepayers will see large increases in their rates bills in 2014-15
- the method of funding the relief is untargeted. All ratepayers who are below the caps on increases make the same contribution to the cost of the transitional relief, based on their rateable value, irrespective of whether they have seen a large reduction in their bill
- it would be a departure from a widely recognised and generally accepted system of transitional arrangements which has existing since 1990
- it would potentially add new complexity to the system. If at the margins of the cap on increases, ratepayers have their increase in bills brought up to the cap by the supplement. This will add to the cost of relief and reduce the number of ratepayers paying the full supplement. Otherwise, some ratepayers may face increases above the cap once the supplement has been added to their bill and
- in 2010-11, it would result in more ratepayers seeing their bill increase compared to seeing no change or a small decrease in their bill under option 1

45. The new administrative costs of option 2 compared to the structure of the current system (which is replicated with option 1) are:

- in local government: a scheme under option 2 would require new software costs in 2009-10 and training costs to ensure staff in local government understood the operation of the supplement. There would be no additional costs in local government thereafter and
- in the private sector: the rating advisor profession also use software and trained staff to calculate transitional relief and advise their clients accordingly. There would be no further costs thereafter

46. These costs would depend upon the systems operated in each authority or private sector firm and their contractual arrangements with their software provider. In view of this uncertainty no attempt has been made to monetise these costs and it is not expected that they will be significant.

Option 3, the option to be implemented: annual caps on both increases and reductions over five years with different caps for small and large properties

47. Options 1 and 2 are four year schemes, which is the same length of scheme adopted for the 2005 revaluation. The 2005 transitional relief scheme ended on 1 April 2009 at which point several thousand ratepayers faced a jump to their full rates bill. The Government has announced that it will allow those ratepayers to defer 60 per cent of their increase in 2009-10 into 2010-11 and 2011-12.

48. Under options 1 and 2, around 70,900 ratepayers would see an increase in their rates in 2014-15 from the ending of transitional relief. The average increase would be 20 per cent but 20,100 ratepayers would see an increase greater than 25 per cent. Most of these would be small business properties.

49. Options 3 and 4 replicate options 1 and 2 for the first four years but ensure that transitional relief continues into 2014-15. For the 2010 revaluation, a transitional arrangements scheme based upon option 3 would have the following caps on increases and reductions:

Table 7: Option 3 caps on increases and reductions. All caps before inflation.

	Cap on increases (small properties)	Cap on increases (large properties)	Cap on reductions (small properties)	Cap on reductions (large properties)
2010-11	5%	12.5%	20%	4.6%
2011-12	7.5%	17.5%	30%	6.7%
2012-13	10%	20%	35%	7.0%
2013-14	15%	25%	55%	13.0%
2014-15	15%	25%	55%	13.0%

50. These caps have the objective of being self financing within each year. The percentage of all ratepayers subject to these caps on increases and reductions is as follows:

Table 8: Option 3 percentage of all ratepayers with capped increases or reductions					
	Cap on increases (small properties)	**Cap on increases (large properties)**	**Cap on reductions (small properties)**	**Cap on reductions (large properties)**	**Not in Transition**
2010-11	21.5%	5.9%	5.9%	12.6%	54.1%
2011-12	14.6%	2.6%	0.6%	8.6%	73.6%
2012-13	8.9%	1.1%	0.1%	2.8%	87.1%
2013-14	3.8%	0.3%	0.1%	0.6%	95.2%
2014-15	1.8%	0.1%	0.1%	0.2%	97.8%

51. The benefits of option 3 are:

- it provides protection to those ratepayers still facing large increases in 2014-15
- as with option 1, it ensures that the cost of providing relief to those most affected by the 2010 revaluation is met by those ratepayers who benefit most from the 2010 revaluation (by adopting caps on reductions in bills) and
- as with option 1, it would be easy to implement. The transitional arrangements are implemented by billing authorities with support from software providers. These stakeholders are familiar with the existing system and have developed and tested systems to accurately calculate rates bills under the transitional arrangements. Option 3 would require little change to those systems

52. The drawbacks of option 3 are

- there will be some ratepayers (about 33,700) who would stay in transitional relief for all five years and, therefore, never pay a rates bill based solely upon their 2010 rateable value. Nevertheless, those ratepayers will still face cumulative increases of 64 per cent (small properties) and 147 per cent (large properties) over the 5 years of the rating list and
- those whose rateable values have fallen significantly at the revaluation, perhaps because the property market in which they operate has also fallen, would have to wait to receive the full benefit of the revaluation and a small number (3,100) would stay in downward caps for the full five years

53. As with option 1, there are no new administrative costs associated with option 3 when compared to the structure of the 2005 transitional arrangements scheme as it is assumed that no costs would arise from increasing the current four year system to a five year scheme.

Option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills

54. The cost of delivering the caps on increases in option 3 and the estimated supplement required on all other rate bills to fund that relief is shown in the following table.

Table 9: Option 4 caps on increases and supplement on all other rate bills. All caps are before inflation.

	Cap on increases (small properties)	Cap on increases (large properties)	Supplement on all other ratepayers.
2010-11	5%	12.5%	2.7p
2011-12	7.5%	17.5%	1.1p
2012-13	10%	20%	0.4p
2013-14	15%	25%	0.1p
2014-15	15%	25%	0.1p

55. Option 4 is an alternative to option 3 in that the relief is funded by a supplement on the rate bill of all other ratepayers (i.e. those not subject to a cap on increases) rather than by capping reductions in bills. As with option 2, the supplements shown are to ensure the scheme is self financing within each year. They are not cumulative so the supplement would fall after the first year.

56. For the reasons given in the analysis of option 2, the alternative of a constant supplement (which is self financing over the life of the scheme) has not been included in the considerations.

57. The benefits of option 4 are that:

- as with option 3, it provides protection to those ratepayers still facing large increases in 2014-15 and
- for those ratepayers seeing reductions in rateable value, perhaps because the property market in which they operate has fallen, the benefits will be reflected in their rates bill immediately

58. The drawbacks of option 4 are:

- as with option 3, there will be some ratepayers who will stay in transitional relief for all five years and, therefore, never pay a rates bill based solely upon their 2010 rateable value

- as with option 2, the method of funding the relief is untargeted. All ratepayers who are below the caps on increases make the same contribution to the cost of the transitional relief, based on their rateable value, irrespective of whether they have seen a large reduction in their bill
- as with options 2, it would be a departure from a widely recognised and generally accepted system of transitional arrangements which has existing since 1990
- as with option 2, it would potentially add new complexity to the system. If at the margins of the cap on increases, ratepayers have their increase in bills brought up to the cap by the supplement. This will add to the cost of relief and reduce the number of ratepayers paying the full supplement. Otherwise, some ratepayers may face increases above the cap once the supplement has been added to their bill and
- in 2010-11, it would result in more ratepayers seeing their bill increase compared to seeing no change or a small decrease in their bill under option 3

59. The new administrative costs of option 4 are the same as option 2.

Impact on 'main affected groups'

60. Following revaluation, the rebasing of the multiplier is used to keep the aggregate non-domestic rates bill constant in real terms. Without transitional relief, the 'do nothing' scenario, the cost is transferred between ratepayers in order to reflect the changes in their rateable value.

61. The intention behind any transitional relief is to minimise the impact of this on businesses by offsetting some of the cost being transferred. Given that all the options are intended to be revenue neutral the aggregate relief to businesses in upwards transition should, in principle, be met by the aggregate cost to those who fund it for all the options. Furthermore, since the caps on increases are the same across all the options for the first four years, the impact on those in upward transition will also be the same across those four years.

62. The effect of introducing a five year scheme will be to introduce additional benefits to those with the largest increases in rateable value following the revaluation. The choice between funding the relief using downward caps or a supplement will change the impact the scheme has on those businesses either not in transition or in downward transition.

63. The downward caps options transfer the cost to ratepayers with large bill decreases, around 316,400 ratepayers in 2010-11, leaving the majority of ratepayers, around 54 per cent to face their true liability from 2010-11. Conversely, the supplement would spread the cost across between around 1,239,600 ratepayers, in proportion to their rateable value, in 2010-11.

64. The impact this supplement has on specific ratepayers also depends on whether or not revenue neutrality is achieved in year or over the life of the scheme. Since in 2010-11 the cost of relief is at the highest level, whilst the number of ratepayers not in transition or downward transition i.e. the number funding the relief, is at its lowest level. This means if in year revenue neutrality is to be achieved the cost to those ratepayers will be higher than if the cost is spread across the life of the scheme.

Table 10 gives an indication of the numbers of ratepayers affected by the different options.

Table 10: Options 1 to 4

		2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15 (options 3and4 only)**
All Options	upward cap (small properties)	366,500	249,200	151,900	65,300	31,500
	upward cap (large properties)	100,200	45,100	18,700	5,600	2,300
Options 1 and 3	downward cap (small properties)	100,700	9,900	1,600	300	200
	downward cap (large properties)	215,700	146,200	48,200	10,200	2,900
	not in transition	923,100	1,255,900	1,485,800	1,624,900	1,669,400
Options 2 and 4	Supplement on other rate bills	1,239,600	1,411,900	1,535,600	1,635,400	1,672,500

65. The tables below show the different impact of using caps or supplements by business size, region and industry type.

66. In all cases the supplement affects many more ratepayers than the caps, and the number affected increases over the years as the number of ratepayers falling out of upwards transition increases. This causes the average cost per hereditament of the supplement to fall year on year. The opposite is true of the caps; the cost here implies the decrease in bills that was not received by ratepayers who are subject to the downward caps. The average discount in rates bill that is not received due to downward caps, increases year on year.

Small properties:

Table 11: small properties, comparison of caps and supplements				
	Method of Funding:	**Number of hereditaments funding transition:**	**Percentage of All Hereditaments:**	**Average cost per Hereditament:**
2010-11	*Supplement*	893,856	52%	£172
	Cap	100,736	6%	£356
2011-12	*Supplement*	1,011,128	59%	£73
	Cap	9,870	1%	£483
2012-13	*Supplement*	1,108,406	65%	£28
	Cap	1,591	<1%	£679
2013-14	*Supplement*	1,195,006	70%	£8
	Cap	277	<1%	£835

*A small number of exceptional cases were removed for this analysis as they were clear outliers.

**Small properties refers to hereditaments with a 2010 RV of < £18,000 (£25,500 in London).

Large properties:

Table 12: large properties, comparison of caps and supplements				
	Method of Funding:	**Number of hereditaments funding transition:**	**Percentage of All Hereditaments:**	**Average cost per Hereditament:**
2010-11	*Supplement*	345,696	20%	£2,896
	Cap	215,723	13%	£5,178
2011-12	*Supplement*	400,857	23%	£1,239
	Cap	146,185	9%	£3,866
2012-13	*Supplement*	427,195	25%	£476
	Cap	48,249	3%	£4,809
2013-14	*Supplement*	440,350	26%	£143
	Cap	10,158	< 1%	£7,391

67. The options using a supplement place a greater burden of funding on small properties than using caps. Under all of the options however, the cost of transitional relief (which itself mainly comes from large properties) is also mainly met by large properties.

Regional:

Table 13: regional comparison of caps and supplements		
Region:	**Net Cost over 4 years (£ million)**	
	Caps	**Supplements**
Central List	£75	–£145
East of England	£70	£70
East Midlands	£185	£95
London	–£670	–£480
North East	£5	£25
North West	£35	£85
South East	£215	£150
South West	–£65	£5
West Midlands	£130	£135
Yorkshire and the Humber	£15	£60

68. The revaluation effect in London is far higher than any other region in the country. Consequently the majority of relief is going to London. Under the caps London's net benefit is higher across the years than under the supplement. The South West would also have a net gain from transitional relief overall under the cap, but not the supplement.

Industry:

Table 14: sector comparison of caps and supplements		
Industrial Sector	**Net Cost over 4 years (£ million)**	
	Caps	**Supplements**
Central list	£75	–£145
Industry	£445	£350
Offices	–£280	–£275
Other	–£235	–£150
Retail	–£5	£225

69. The use of a cap scheme would have benefits for the retail sector in comparison to the supplement. At the aggregate level caps would, over the four year period, cost the retail sector £220m less than the supplement. The sector as a whole would be a net beneficiary with caps, but a contributor with a supplement. The central list would be a net contributor with caps but a net beneficiary with supplements.

70. Industry is the biggest contributor to the transition scheme and caps would cost this sector £115m more than the supplement.

Interaction with the rates deferral scheme

71. The business rates deferral scheme allows ratepayers to defer payment of 3 per cent of their 2009-10 bill. This is roughly equal to 60 per cent of the increase in the 2009-10 multiplier (that increase being 5 per cent). They are able to pay half of the 3 per cent increase (i.e. 1.5 per cent) in addition to their bill in 2010-11 and the remaining half in 2011-12. Therefore, any ratepayer taking the deferral will see the following underlying changes to their rates bill as a result of deferral[10]:

- a 2 per cent increase in 2009-10 (rather than the 5 per cent RPI increase)
- a 4.5 per cent increase in 2010-11 (this comprises the 3 per cent increase in their liability which they did not pay in 2009-10 as a result of the deferral plus 1.5 per cent paying back half of the deferred amount from 2009-10)
- no change in 2011-12 (because the remaining 1.5 per cent is repaid in that year) and
- a 1.5 per cent reduction in 2012-13 (because the deferred amount has now been repaid)

72. These underlying effects are before inflation and changes to rateable values and will apply equally to ratepayers in transition as they do not affect the underlying rates liability on which transitional arrangements are based. Therefore, the modelling on which this impact assessment is based, does not take account of the interaction with the business rates deferral scheme.

73. For those ratepayers who have accepted a deferral of the increase in their rates in 2009-10 due to the ending of transitional relief then the impact in 2010-11 may be far greater depending upon the amount of deferral.

Key assumptions, sensitivities, risks

Rateable value thresholds for small and large properties

74. For the 2005 transitional arrangements, the thresholds between small and large properties were set at £21,500 rateable value in Greater London and £15,000 rateable value elsewhere. The Government proposed to increase these thresholds in line with the general movement of rateable value at the revaluation to £25,500 and £18,000. This has been reflected in the modelling.

[10] These are in broad terms as the precise percentages will vary depending upon the size of the bill post 1 April 2010. These are underlying changes – they ignore inflation, changes to the multiplier or changes to the RV of the property.

Inflation

75. Inflation, based on the Retail Prices Index for the September preceding the year concerned, will be applied equally to all ratepayers in transition (because inflation will be applied to the caps on increases or reductions) and to all ratepayers outside transition (because the same figure for inflation will be used in calculating the multipliers for each year of the 2010 rating list). Therefore, all analysis in this Impact Assessment ignores the effect of inflation. The estimated small business multiplier and the illustrated caps on increases and reductions are all shown before inflation.

76. This impact assessment is primarily based on modelling that was undertaken using data which could change (as the rating lists are maintained) and which cannot predict future changes such as appeals, deletions, splits and mergers with complete accuracy.

Specific impact tests

Competition

77. We have applied the Office of Fair Trading's competition filter to determine whether the proposals raise any competition concerns. None of the options in this impact assessment will:

- directly limit the number or range of suppliers
- indirectly limit the number or range of suppliers
- limit the ability of suppliers to compete or
- reduce suppliers' incentives to compete vigorously

78. The revaluation will redistribute the rates burden based upon new rateable values and it follows that some ratepayers will face increases and some reductions. In general, we can expect the effects of the revaluation to vary by location and class of property. However, to the extent that particular sectors or parts of particular sectors may be worse or better off following the revaluation, this would be the result of movements in the value of their property and not intervention by the Government. The options being considered in this paper would dampen such impacts. Therefore, no competition impacts have been identified as arising from these proposals.

Rural areas

79. Similar considerations to those of competition apply to rural areas. The revaluation may result in a shift in the rates burden between locations but, in a broad terms, a rural location will only see an increase in rates paid if the value of the non-domestic property in that location had risen in comparison to others. The options being considered in this impact assessment would provide relief to those facing significant increases.

Small firms

80. As discussed above, all of the options provide more relief to those liable for business rates for small business properties in the transitional arrangements.

Human rights

81. There are two provisions of the European Convention which could be relevant to the options set out in the consultation document – Article 1 of the First Protocol and Article 14.

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

83. 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.

Other impact tests

84. No impacts have been identified as arising from these options as a result of:

- legal aid
- sustainable development, carbon assessment and other environmental,
- health
- race, disability, gender and other equality

Implementation, enforcement and monitoring

85. As set out in paragraph 10, the Government intends to implement option 3. This takes into account the consultation responses. In addition option 3 has two clear advantages over options 1, 2 and 4. The advantages of option 3 are:

- it ensures that funding the cost of transitional relief is targeted at those who have benefited most from the revaluation. This is fairer than the supplement options (options 2 and 4) where all ratepayers would make the same contribution based on their rateable values irrespective of how their own rates bills have changed due to the revaluation and

- it ensures that no ratepayers would face very large increases in their rates bill 2014-15. Under the four year schemes (options 1 and 2), many ratepayers would see large increases in their rates bills in 2014-15. Whilst this will mean that some ratepayers will not pay their rates bills without transition, the numbers are relatively low - only 36,000 would remain in either upward or downward transition in 2014-15 representing about 2.2 per cent of hereditaments

86. The transitional arrangements will be implemented by billing authorities who draw heavily upon the assistance of IT software companies. The majority of bills are calculated by computer using that software. Therefore, the majority of risks associated with implementation revolve around the accuracy of the software.

87. Billing authorities and the software companies have an excellent record of delivering accurate bills under the transitional arrangements but they require time to develop those systems and ensure they work. By retaining the same format of providing relief, the Government aims to minimise these risks because the billing authorities and software companies are already familiar with the format. The Government is working closely with these stakeholders throughout the 2010 revaluation.

88. The mechanism for implementing the transitional arrangements is contained in regulations which, but for the matters mentioned in this impact assessment, will remain largely unchanged for 2010. Billing authorities must use the regulations in calculating rate bills and failure to do so could be challenged as a breach of statutory duty.

89. The Government will monitor the cost of the transitional arrangements by gathering information from billing authorities annually.

Specific Impact Tests: Checklist

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes

Methodology

Introduction

1. This section presents a short summary of the design of the four options for the 2010 transition relief scheme introduced in the main section of this document.

2. Every five years, the rateable value of hereditaments is reassessed by the Valuation Office Agency (VOA). As a result of that revaluation, there are properties that face significant changes in their business rates bills, either increases or decreases. The transition relief scheme aims to provide businesses with protection against large increases that may arise from the each revaluation. The next revaluation will be effective on 1 April 2010.

3. The maintenance of the ratings list, i.e. the information on hereditaments including their rateable values, is the responsibility of the VOA. The list is continuously updated, as every day properties are demolished, new properties are added, or physical changes occur to properties which affect their rateable value. In addition, after new assessment of their rateable value (including revaluations), businesses are free to appeal, and the list is also updated to reflect this. As such, it is likely that two consecutive dates will not have the exact same ratings list.

Data and data validation

4. In order to look into the different options for the new scheme, information was provided by the Valuation Office Agency (VOA). This included the current rateable value (i.e. pre-revaluation) and the reassessed value for 1st April 2010 (i.e. post-revaluation) for each hereditament in England, as well as geographical and industrial sector information. Along with the hereditament information, the VOA supplied the Department for Communities and Local Government (CLG) with a summary table containing the revaluation effect (i.e. the ratio between the proposed and current rateable value) for a range of industrial sectors and the government office regions.

5. Furthermore, the list is divided in two sections. Hereditaments whose business rates bills are collected by billing authorities are placed in the local list. These account for most of the 1.7 million hereditaments in England. Hereditaments whose business rates bills are collected by CLG are placed in the central list. As of June 2009 there are just under 100 hereditaments on the central list.

6. The first step upon receiving the dataset from the VOA was to look for inconsistent observations, such as extreme increases or decreases, and to determine whether or not these were errors. This was done by reproducing the summary table provided by the VOA and identifying discrepancies or cases, if any, that may needed to be further explored. If required, further information would be requested from the VOA.

7. Once any discrepancies were resolved, the dataset was then used to determine the caps to present for consultation.

8. The fact that exact values of rateable value were used, allowed CLG to determine caps for small and large businesses separately, as it was possible to determine which business would fall under each of the categories.

Assumptions

9. In this section we list the assumptions made throughout the modelling process. The limitations are discussed in the next section.

   - **Thresholds** – There are two thresholds for small business properties. One is used throughout England except London, and one is used for London hereditaments. Currently these stand at £15,000 and £21,500 respectively. These thresholds need to be updated to take account of the average change in rateable value. The assumption is to increase them by the overall effect of the revaluation (currently 19 per cent). Therefore the new small business property thresholds are £18,000 for England except London and £25,500 for London.
   - **Inflation** –The final scheme will use the preceding September RPI figure for each of the years of the scheme. As these figure cannot be predicted for each year of the scheme, a 0 per cent inflation rate was assumed through out.
   - **Multiplier** – The small business multiplier is determined by a statutory formula, and is published annually by CLG. It is set in such way that NNDR yield after revaluation only changes by the rate of inflation. Since the inflation was set at 0 per cent, the multiplier for each of the five years of the scheme is calculated at 41.3p. In reality, please note that each year's multiplier will likely differ from the previous' year value due to inflation.
   - **Rate of appeals** – As described in paragraph 3 above, appeals are constantly being resolved. As there is still nearly a year in the current revaluation period before its end, this needs to be taken into account. Therefore there is a loss of appeals up to and including 31March 2010, and one for the new revaluation cycle (1 April 2010 to 31 March 2015) on both the local and the central list. The effect of these assumptions is to reduce bills overall by about 2.5 per cent.
   - **Deletions** – Deletions from the list occur when hereditaments are destroyed (e.g. demolitions) or otherwise going through such changes that they are rendered unusable (e.g. large construction works). No deletions have been assumed for the modelling presented for consultation. The reason is that the impact of deletions is fairly unpredictable. It is not possible to know the pattern of deletions across the country.

- **Mergers and splits** – Merges and splits occur, as the name indicates, when multiple hereditaments are merged into one (mergers) or when a single hereditament is divided into multiple ones (splits). No mergers or splits have been included in the modelling. Again, is not possible to predict where or when mergers and splits occur. However, it should be noted that the regulations are such that the transitional adjustment continues after a split or a merger.

Limitations

10. The models presented in the consultation document and briefly discussed above have some limitations. Among these, it is important to reiterate that although the modelling is based on the same data that was used to inform the consultation document published in July 2009, the ratings list is being continuously updated to reflect appeals, deletions, mergers, splits, and the creation of new properties. Therefore it is not possible to forecast what will happen from the end of the modelling stage until the moment in April 2010 when the scheme becomes live, nor is it possible to predict what will happen after.

11. As discussed in paragraph 9 above, the modelling does not include any deletions (e.g. due to demolitions), splits or merges. The expected number of properties affected by these changes is relatively small, but nevertheless it will impact the final cost of the scheme.

12. It should be noted that the assumptions may not reflect the final values. Inflation will not likely be 0 per cent for the duration of the scheme, and therefore the multipliers will be different than the 41.3p listed above. However, inflation has a common impact on all rate bills and, therefore, has little impact on the cost of the transitional relief.

13. As part of the modelling process all appeals are settled prior to the calculating the transitional bills. This is done by reducing the rateable value of each property by the appropriate amount (described above). However, this does not happen in reality where appeals can take quite a considerable amount of time to be resolved. Therefore, the model is only expected to be revenue neutral once all appeals have been take in consideration, at the end of the life of the scheme.

Algorithm

14. For each year of the scheme, and for each hereditament in the ratings list within each year, the calculation takes the following steps:

    - **calculate the base liability:** For the year 2010-11, the base liability (the bill paid in the previous year) is calculated. This is done by multiplying the 2005 rateable value by the 2009-10 small business multiplier
    - **calculate the notional chargeable amount (NCA):** this is the product of the 2010 rateable value and the small business multiplier for the appropriate year

- **calculate the year's bill (before any other reliefs):** for ratepayers in upwards transition, this is the lower of the NCA and the product of the base liability and the appropriate year's caps. For ratepayers in downwards transition, the bill is the higher of the NCA and the product of the base liability and the appropriate year's caps. The current year's bill will be the next year's base liability

calculate transitional relief: This is the difference between the bill and the NCA, which gives the cost of transition.

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