EXPLANATORY MEMORANDUM TO

THE LOCAL GOVERNMENT FINANCE ACT 1988 (CALCULATION OF SMALL BUSINESS NON-DOMESTIC RATING MULTIPLIER) (ENGLAND) REGULATIONS 2024

2024 No. 1321

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 James Murray, Exchequer Secretary at His Majesty's Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Matthew Henty, Deputy Director for Enterprise and Property Tax, at His Majesty's Treasury, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Olivia Hepsworth at His Majesty's Treasury can be contacted with any queries regarding the instrument at Olivia.Hepsworth@hmtreasury.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument is made in exercise of the powers conferred by paragraph A10(4)(b) of Schedule 7 to the Local Government Finance Act 1988 ("the LGFA 1988"). This instrument changes the annual indexation of the small business non-domestic rating multiplier ("the small business multiplier") for the financial year beginning on 1 April 2025 ("2025-26"). Instead of being uprated by the Consumer Price Index ("CPI"), the small business multiplier for 2025-26 will be frozen at the same level as for the financial year beginning on 1 April 2024 ("2024-25"). The main non-domestic rating multiplier ("the national multiplier") is unaffected by this instrument and therefore is uprated by the CPI.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdictions which the instrument forms part of the law of) is England and Wales.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England.

5. Policy Context

What is being done and why?

5.1 Non-domestic rates ("business rates") are calculated as the product of a hereditament's rateable value, as determined by the Valuation Office Agency, and the relevant business rates multiplier. A hereditament is a taxable unit of property. A

business rates bill is determined by multiplying the rateable value of the hereditament by the applicable business rates multiplier Generally, the small business multiplier applies in relation to hereditaments with rateable values of less than £51,000 and the national multiplier applies in relation to hereditaments with rateable values of £51,000 or more.

5.2 The Chancellor announced at Autumn Budget 2024 that, for the financial year 2025-26, the national multiplier would be indexed by CPI and that the small business multiplier would be frozen at the same level as for 2024-25. As a result, the national multiplier for 2025-26 will be 0.555 (or 55.5p in every £1 of rateable value), whilst the small business multiplier will remain at 0.499 (or 49.9p).

5.3 Alongside Small Business Rate Relief, freezing the small business multiplier will support over a million properties, meaning bills are lower than without the freeze.

What was the previous policy, how is this different?

5.4 The legislative default under Schedule 7 to the LGFA 1988 is for both the national and the small business multipliers to be adjusted each year by the 12-month percentage change in CPI for the preceding September. The Government's policy is to freeze the small business multiplier for 2025-26.

5.5 For the financial year 2025-26, this instrument is required to give effect to that policy.

6. Legislative and Legal Context

How has the law changed?

6.1 Schedule 7 to the LGFA 1988 establishes a procedure to determine the small business multiplier and national multiplier for each chargeable financial year. For each financial year other than a revaluation year, this procedure includes two calculations, set out in paragraphs A4 and A6 of that Schedule with variables referred to as "C".

6.2 C is the CPI for September of the financial year preceding the year concerned. However, if the Treasury so provide by regulations in relation to the year concerned, C is a figure which is less than that index and which is specified in the regulations (see paragraph A10(4) of Schedule 7 to the LGFA 1988). The figure for C can be different for the small business multiplier and the national multiplier.

6.3 For 2025-26 the Government has decided that the small business multiplier should remain at 0.499 and that the national multiplier should be increased to 0.555. Regulations made by the Treasury under paragraph A10(4)(b) of Schedule 7 to the LGFA 1988 are required to give effect to this decision.

6.4 If the Government had not decided to take this approach, for 2025-26, C would be the CPI for September 2024, which is 134.2, which is an increase from the September 2023 CPI of 132.

6.5 Instead, this instrument specifies C as 132 for the small business multiplier meaning therefore, that the small business multiplier will not increase. It does not affect the national multiplier, for which C is therefore set at 134.2.

Why was this approach taken to change the law?

6.6 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 No consultation has been carried out prior to this instrument being made.

8. Applicable Guidance

8.1 Guidance on business rates in general can be found on gov.uk (https://www.gov.uk/introduction-to-business-rates).

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because it amends a local tax regime.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is that, for 2025-26, the bills for those bodies paying non-domestic rates on properties with a rateable value of less than £51,000 will not include a 1.6% increase before any reliefs are applied.

9.3 The legislation does impact small or micro businesses. Small businesses who are below the £51,000 rateable value threshold have been protected from bill increases through a freeze to the small business multiplier. No specific action is proposed to minimise regulatory burdens on small businesses, since its impacts are beneficial to small businesses.

9.4 The impact on the public sector is that, for 2025-26, the bills for those bodies paying non-domestic rates on properties with a rateable value of less than £51,000 will not include a 1.6% increase before any reliefs are applied.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The operation of this instrument will be monitored and reviewed as part of the operation of the business rates system as a whole.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

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

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").