EXPLANATORY MEMORANDUM TO

THE LOCAL GOVERNMENT FINANCE ACT 1988 (NON-DOMESTIC RATING MULTIPLIERS) (ENGLAND) (NO. 2) ORDER 2021

2021 No. 1495

1. Introduction

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

2. Purpose of the instrument

2.1 The instrument is made in exercise of the powers conferred by paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988.

2.2 The instrument changes the annual indexation of the small business non-domestic multiplier used to calculate business rates. Instead of uprating by the retail prices index, the multiplier for the financial year beginning on 1st April 2022 will be the same as the multiplier for the financial year beginning on 1st April 2021.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is England and Wales.

4.2 The territorial application of this instrument is England.

5. European Convention on Human Rights

5.1 The Financial Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Local Government Finance Act 1988 (Non-Domestic Rating Multipliers) (England) (No.2) Order 2021 are compatible with the Convention rights."

6. Legislative Context

6.1 Schedule 7 to the Local Government Finance Act 1988 establishes a procedure to determine the small business non-domestic rating multiplier for each chargeable financial year. This procedure includes a calculation, set out in paragraph 3 of that Schedule, with a variable referred to as "B".

6.2 B is the retail prices index for September of the financial year preceding the year concerned. However, if the Treasury so provide by order in relation to the year concerned, B is a figure which is less than that index and which is specified in the order (see paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988).

6.3 Since the financial year beginning on 1st April 2018, the government has had a policy of increasing the small business non-domestic rating multiplier by reference to the consumer prices index rather than the retail prices index.

6.4 However, for the financial year beginning on the 1st April 2022 the government has decided that the multiplier should be the same as the multiplier for the financial year beginning on 1st April 2021. A Treasury order under paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988 is required to give effect to this decision.

6.5 If the government had not decided to take this approach, for the financial year beginning on 1st April 2022 B would be the retail prices index for September 2021, which is 308.6.

6.6 Instead, this instrument specifies B as 294.3 for the financial year beginning on 1st April 2022.

7. Policy background

What is being done and why?

7.1 National non-domestic rates are calculated as the product of a hereditament's rateable value, as determined by the independent Valuation Office Agency, and the relevant non-domestic rating multiplier. A hereditament is a taxable unit of property. The small business non-domestic rating multiplier applies in relation to hereditaments with rateable values of less than £51,000. The national non-domestic rating multiplier applies in relation to hereditaments of £51,000 or more.

7.2 Unless HM Treasury exercises its order-making power in paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988, the small business non-domestic multiplier is adjusted each year by the 12-month percentage change in the retail prices index for the preceding September.

7.3 As from the financial year beginning on 1st April 2018, the government has had a general policy of increasing the small business non-domestic rating multiplier by reference to the consumer prices index rather than the retail prices index. Since the consumer prices index is lower than the retail prices index, this policy entails a reduced indexation in relation to the small business non-domestic rates multiplier.

7.4 However, for the financial year beginning on the 1st April 2022, the multiplier will be the same for the financial year beginning on the 1st April 2021. This will support all ratepayers, large and small ahead of the revaluation in 2023, meaning bills are 3% lower than without the freeze.

7.5 A Treasury order under paragraph 5(3) of Schedule 7 to the Local Government Finance Act 1988 is required to give effect to this decision. This instrument sets out the figures to be used to set the small business non-domestic rating multiplier for the financial year beginning on 1st April 2021.

7.6 The national non-domestic rating multiplier is the small business non-domestic multiplier plus an adjustment to fund a proportion of the estimated cost of the small business rate relief scheme. The Secretary of State for Levelling Up, Housing and Communities has estimated that the supplement to fund small business rate relief should be 1.3p for the financial year beginning on 1st April 2022.

8. European Union Withdrawal and Future Relationship

8.1 This instrument does not relate to withdrawal from the European Union.

9. Consolidation

9.1 Not Applicable.

10. Consultation outcome

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

11. Guidance

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

12. Impact

12.1 The impact on business, charities and voluntary bodies is that, for the financial year beginning on 1st April 2022, those bodies paying non-domestic rates will see no increase in their rates rather than their rates increasing by the retail prices index.

12.2 The impact on the public sector is that, for the financial year beginning on 1st April 2022, those bodies paying non-domestic rates will see no increase in their rates rather than their rates increasing by the retail prices index.

12.3 An Impact Assessment has not been prepared for this instrument as it amends a local tax regime.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses.

13.2 No specific action is proposed to apply this instrument differently to small businesses, since its impact is beneficial for all ratepayers.

14. Monitoring & review

14.1 The operation of this instrument will be monitored and reviewed as part of the operation of the national non-domestic rates system as a whole.

15. Contact

15.1 Will Murphey, at HM treasury, can be contacted with any queries regarding the instrument at Will.Murphey@hmtreasury.gov.uk

15.2 Matthew Henty, Deputy Director for Enterprise and Property Tax, at HM Treasury can confirm that this Explanatory Memorandum meets the required standard.

15.3 The Financial Secretary to the Treasury at HM Treasury can confirm that this Explanatory Memorandum meets the required standard.