EXPLANATORY MEMORANDUM TO

THE NON-DOMESTIC RATING (SMALL BUSINESS RATE RELIEF) (ENGLAND) (AMENDMENT) ORDER 2009

2009 No. 354

1. This explanatory memorandum has been prepared by the Department for Communities and Local Government and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This Order amends the Non-Domestic Rating (Small Business Rate Relief) (England) Order 2004 ("the 2004 Order"). It removes the requirement that, to be eligible for small business rate relief, a ratepayer must occupy a hereditament with a rateable value of no more than £21,499 in Greater London, or £14,999 outside Greater London, on the first day of each financial year in which relief is sought. It also makes consequential amendments to the 2004 Order so that the rateable value of the hereditament in respect of which a ratepayer is seeking relief must still be no more than £21,499 in Greater London, or £14,999 outside Greater London, on every day for which relief is actually sought.

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

3.1 None.

4. Legislative Context

4.1 In the 2008 Pre-Budget Report, the Chancellor announced that the Government would be "*extending small business rate relief by allowing eligible small businesses in England to claim relief from business rates from the day they begin to occupy a new property with a low rateable value*".

4.2 The 2004 Order prescribes the conditions that must be satisfied before small business rate relief can be granted by a rates billing authority. In particular, under article 2, the rateable value of a property cannot be greater on the first day of a financial year in which relief is sought than £21,499 in Greater London and £14,999 outside Greater London (these amounts are prescribed for the purposes of section 43(4B)(a)(i) of the Local Government Finance Act 1988 ("the 1988 Act")). This is the case even if relief is not actually sought for that day.

4.3 This Order gives effect to the Chancellor's announcement by omitting article 2 of the 2004 Order. As a consequence, it will be possible for a billing authority to grant small business rate relief in circumstances where the property in respect of which relief is sought either did not have a rateable value on 1st April in a financial year in which relief is sought, or had a rateable value of more than £14,999, or £21,999 in Greater London, on that date. However, it will still be necessary for the property's rateable value to be no greater than those amounts on every day for which relief is actually sought, and this Order makes consequential amendments to the 2004 Order to provide for that.

5. Territorial Extent and Application

5.1 This instrument applies to England.

6. European Convention on Human Rights

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

7. Policy background

- ***What is being done and why***

7.1 Small business rate relief came into effect from 1st April 2005 under the 2004 Order. The relief was implemented because evidence indicates that business rates are a disproportionate burden for small businesses in comparison with larger businesses.

7.2 The 2004 Order sets out the conditions under which the occupier of a property may be entitled to small business rate relief. These conditions include thresholds for entitlement to the relief based on the rateable value of the property and a requirement that the business occupies only one property.

7.3 The 2004 Order also provides, in effect, that the property in respect of which a business is claiming small business rate relief must have been included in the local non-domestic rating list on 1st April in any given financial year (whether or not the business was in occupation of the property on that day). If this condition is not satisfied, relief cannot be granted in that year. A key reason for this was to allow the relief to be applied to bills when they are sent to ratepayers at the beginning of the financial year. In addition, the property's rateable value on 1st April must have been below the relevant rateable value threshold mentioned in paragraph 4.2 above.

7.4 However, the outcome of these arrangements has been that an occupier of a newly built property, or a property that had been formed from a split or merger of an existing property, first shown on the local rating list on or after 2nd April would not receive any small business rate relief until the following financial year, even if they otherwise satisfied the eligibility criteria.

7.5 A business that occupies a property first listed after 1st April may be in the first year of trading, which is often the most difficult. The previous criteria penalised these ratepayers at the time when relief is most needed. This anomaly has been highlighted to the Government by otherwise eligible businesses that have not been able to receive small business rate relief.

7.6 It is the intention of the Government that businesses should be able to access small business rate relief, if entitled to it, from the date they first occupy their premises. The Small Business Rate Relief (England) (Amendment) Order 2009 makes the changes required to deliver this. From 1st April 2009, an otherwise eligible occupier of a property that comes onto the ratings list after 1st April will be able to obtain small business rate relief from the date of first occupation rather than having to wait for 1st April in the following financial year.

- ***Consolidation***

7.7 As the amendments made by this Order are minor in drafting terms, the Department does not consider that consolidation of the 2004 Order is required.

8. Consultation outcome

8.1 There has not been a consultation on this change to the small business rate relief scheme, which was announced as part of the Pre-Budget Report 2008. The Government has received numerous representations from otherwise eligible businesses who have not received small business rate relief because they occupy a property which was not shown

on the local rating list on 1st April in the year in which they are seeking relief. These representations have pointed out that the first year of trading is often the most difficult and that the present arrangements penalise ratepayers at the time when the relief is most needed.

9. Guidance

9.1 The Government will be updating its small business rate relief "Frequently Asked Questions" document which is available to local authorities and businesses on the Communities and Local Government website – www.communites.gov.uk.

10. Impact

10.1 The impact of the changes to the small business rate relief scheme on eligible small businesses is variable depending on the rateable value of the property they occupy. An eligible small business could benefit by up to a 50% reduction in their business rates.

10.2 Small business rate relief is funded by a supplement on the rates bill of businesses which are not eligible. The impact of the change is estimated to be between a 0.03% and 0.2% increase on those ratepayers' annual bills.

10.2 We do not envisage that the changes will impact significantly on local authorities.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 The changes to the small business rate relief scheme will benefit eligible small businesses. The changes will simplify the current process and ensure small business rate relief is available from the date a business first occupies a property.

11.2 Not all small businesses occupy only one property and/or a property below the rateable value threshold (mentioned in paragraph 4.3 above). The impact of the changes for these small businesses is minimal as the increase in their rates bills is estimated to be between 0.03% and 0.2%. The Government therefore determined that it was reasonable and proportionate to implement the change.

12. Monitoring & review

12.1 The policy will be reviewed on an ongoing basis.

13. Contact

13.1 Richard Enderby at the Department for Communities and Local Government, telephone 020 7944 4224 or email richard.enderby@communities.gsi.gov.uk, can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
Department for Communities & Local Government	**Impact Assessment of Amendment to Small Business Rate Relief Order to Remove 1 April Criterion**	
Stage: Final Proposal Stage	**Version:** 1	**Date: 1 January 2009**
Related Publications:		

Available to view or download at:

http://www.

Contact for enquiries: Richard Enderby **Telephone:** 020 7944 4224

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

The Small Business Rate Relief (SBRR) scheme is in place to prevent a disproportionate rates burden being placed on small businesses. Currently an otherwise eligible small business that occupies a property that is first entered on a ratings list after 1 April is not eligible to receive the relief in that finacial year, increasing the rates burden of a small business until the following year. This amendment to the scheme will allow an otherwise eligible small business to claim relief from business rates from the day they begin to occupy a new property with a low rateable value.

What are the policy objectives and the intended effects?

The aims of the policy are to:

(i) to simplify the current small business rate relief system; and

(ii) to reduce the tax burden on small businesses.

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

The Impact Assessment considers two options, 1) do nothing and 2) removal of the 1 April criterion for entitlement to small business rate relief. The preferred option is the removal of the 1 April criterion, and this was announced in the Pre Budget Report on 24 November 2008.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? This policy will be subject to ongoing review though the annual collection of business rates statistics, which will be published in September 2010.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

John Healey

.....Date: 10th February 2009

Summary: Analysis & Evidence

Policy Option:	Description:
Remove 1 April Restriction	**Allow eligible small businesses to claim SBRR from business rates from the day they occupy a new property with a low rateable value.**

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£ De minimis	0
Average Annual Cost (excluding one-off)	
£ 19 million	

Description and scale of **key monetised costs** by 'main affected groups' The SBRR scheme is revenue neutral, funded by larger businesses who pay a supplement on the small business multiplier. The amendment is likely to increase the burden of business rates on larger businesses by to £18.9 million, based on 2007/08 analysis.

Total Cost (PV) **£ 163 million**

Other **key non-monetised costs** by 'main affected groups' If the number of new properties with local rateable values increases, the costs of the scheme couthe number of new properties increases if these are occupied by small businesses. Local Authorities may need to make minor adjustment to their software systems for the amendment.

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£ De minimis	0
Average Annual Benefit (excluding one-off)	
£ 19 million	

Description and scale of **key monetised benefits** by 'main affected groups' The amendment will increase tax relief to small businesses by approximately £18.9 million each year.

Total Benefit (PV) **£ 163 million**

Other **key non-monetised benefits** by 'main affected groups' This amendment represents a simplification to the SBRR scheme, which may also encourage take up by eligible small businesses. In the current economic climate this may encourage greater resilience for smaller businesses who may be disproportionately affected by the economic downturn.

Key Assumptions/Sensitivities/Risks The amendment assumes more small business will claim small business rate relief in the year they first occupy their property; if this happens this will increase the cost of the supplement paid by large businesses. However, if forecast accurately within year this should continue to be a revenue neutral scheme.

Price Base Year 2009	Time Period Years 10	**Net Benefit Range** (NPV) **£ 0**	**NET BENEFIT** (NPV Best estimate) **£ 0**

What is the geographic coverage of the policy/option?				England Only	
On what date will the policy be implemented?				1 April 2009	
Which organisation(s) will enforce the policy?				Local Authorities	
What is the total annual cost of enforcement for these organisations?				£ 0.00	
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?		No	Yes	N/A	N/A

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

Increase of	£ De Minimis	Decrease of	£ 0	**Net Impact**	**£** De Minimis

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

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Background

1. Small Business Rate Relief (SBRR) is a self-financing relief scheme for small businesses and is funded by a supplement imposed on larger businesses. Currently, one of the criteria to qualify for relief is that a business must occupy a property shown on a rating list on 1st April in the financial year that relief is being claimed for. This excludes an otherwise eligible business that occupies a property first shown on a ratings list after 1st April until the following financial year.

2. In order to ensure that an eligible small business can claim relief from the date they first occupy their property, in his pre-budget report on 24 November 2008 the Chancellor announced that the 1st April restriction would be removed.

3. The current scheme has been in effect since 1st April 2005. Broadly, it allows businesses to claim a reduction in their business rates if they occupy only one property with a rateable value (RV) of less than £15,000 or £21,500 in London. The business rate liability for eligible small businesses is calculated using the small business multiplier (for 2008/09 this is 45.8p). A supplement is imposed on businesses not eligible to finance the rate relief scheme (for 2008/09 the supplement is 0.4p).

4. There are three tiers to the current system:
    a. Small Businesses occupying a property with an RV of no more than £5,000 receive a reduction of 50% in their rates liability;
    b. Small Businesses occupying a property with an RV between £5,001 and £10,000 are entitled to relief on a sliding scale – for every £100 increase in RV, relief decreases by 1%.
    c. Small Businesses occupying a property with a RV between £10,001 and £14,999 (£21,499 in London) have their liability calculated using the small business multiplier.

5. In considering the requirement that they must only occupy one property, businesses may disregard properties they occupy that they are not claiming SBRR in respect of if those properties have a RV of less than £2,200. However, in these cases, the RV of all the properties the business occupies must still be considered in determining whether the overall RV threshold criterion is met.

6. The arrangements for applying for SBRR were simplified with effect from the financial year beginning on 1st April 2007. Instead of having to apply for the relief each year, applications for relief can now cover up to the five year period between the revaluation of non-domestic properties for the purposes of rates. For example, a ratepayer can make just one application for relief covering the years 2007-08, 2008-09 and 2009-10.

7. The 1st April criterion means a business that would otherwise qualify cannot claim SBRR until the beginning of the subsequent financial year if they occupy a property that is first shown on a ratings list after 1st April because for example:
    a) the property is a new build;
    b) An existing property is split into two or more properties; or
    c) A number of properties are merged into one property.

8. The removal of the 1 April criterion would mean that, from 1 April 2009, a business could claim relief from the date they occupy a property rather than have to wait until the following financial year. (An application under the new arrangements could not be backdated for businesses occupying properties first shown on a rating list in financial years prior to 2009/10.)

9. Updating SBRR to allow claims for relief to be made on properties that are first rated after 1 April in a

financial year is likely to have a positive impact for many businesses with little impact on the larger businesses that fund the scheme and little impact on local authorities that implement SBRR.

10. Table 1 below illustrates the current cost of the SBRR scheme as reported each financial year by local authorities.

Table 1: the current costs of the SBRR scheme since its introduction in April 2005. Please note that figures relating to 2008/09 represent a forecast made at the start of this financial year.

	(NNDR3)	(NNDR3)	(NNDR3)	NNDR1[2]	
	2005/06	2006/07	2007/08	2008/09	**Total**
Supplement (£)	0.007	0.007	0.003	0.004	
Yield from local lists	306	309	122	179	**916**
Yield from central lists (£million)	18	19	8	8	**53**
***Total yield (£million)	324	328	130	187	**969**
[1]Cost of SBRR (including iro previous years)	202	252	269	266	**989**
Percentage of herditaments under the SBRR threshold claiming SBRR based on relief given out [4] (calculated using VOA figures)	27.2	14.9	15.1	16.8	**19.1**
[3]Net cost of scheme	122	76	-139	-79	**-20**

[1] **Please note that figures were calculated using additional costs in respect of previous years, as this gives a true cost of the scheme within the year.**
[2]**These figures are from the 2008/09 NNDR1 form, completed prior to the start of the financial year. These figures are therefore a forecast and may not differ from final outturn figures.**
[3] **Please note that these figures may not total due to rounding**
[4] **The take up estimate using VOA figures may appear to be significantly lower than expected, the data cannot tell us about ownership or eligibility of the properties, so for VOA figures there will be an inherent overestimation of the number of properties eligible to apply for relief.**

Economic Costs and Benefits

Option 1: Do nothing

11. This option was viable before the pre-budget report. There are no additional costs or benefits to the scheme remaining in its current form.

Option 2: Remove 1 April Criterion (Main Findings)

12. The proposed changes to this scheme involve removing the requirement that the property an otherwise eligible small business occupies must be on the ratings list on 1 April for the business to receive relief in that financial year. This amendment could have particular impact for an otherwise eligible small business that occupies a property first shown on a ratings list just after 1 April. For example, after the amendment an otherwise eligible business would receive SBRR if it occupies a property that is put on the ratings list after the 1st of April because:

    a. A property is a new build;
    b. An existing property is split into two or more properties; or
    c. A number of properties are merged into one property

13. In these circumstances, an otherwise eligible small business would no longer pay a disproportionate rates bill for the remainder of the financial year in which their property is first listed..

14. In the current financial climate this change in policy is important is enabling new small businesses to receive the relief they are entitled to. Many of these businesses affected will be in their first year of trading, and in the current financial climate it is important that the necessary support is made available.

15. It is important to note that this policy aims to remain revenue neutral over its lifetime. This amendment will continue to be funded by a supplement paid by other businesses on the small

business multiplier; it is likely that the value of this supplement will have a slight increase. The analysis below shows our best estimates about how the supplement may change as a result of this amendment.

Evidence base for amendment

16. Data provided by the Valuation Office Agency (VOA) has allowed us to examine the numbers of properties under the SBRR thresholds joining the ratings list within each financial year. We have used this data to calculate the benefit of allowing this amendment to the SBRR scheme, and the likely costs imposed on larger businesses from this amendment. Table 2 below shows the number of properties under the SBRR thresholds joining the ratings list from April 2001 to 31st October 2008. These additions represent the maximum possible number of newly eligible heriditaments.

Table 2: showing overall trends in the number of businesses added

Year	Total no. of properties under the SBRR thresholds already on ratings list	Total number of properties under the SBRR thresholds added to ratings list	**Percentage of additions against total numbers at the start of the year**
2001/02	1,259,120	58,881	**4.7**
2002/03	1,261,786	57,877	**4.6**
2003/04	1,266,154	59,123	**4.7**
2004/05	1,270,453	62,047	**4.9**
2005/06	1,215,970	66,990	**5.5**
2006/07	1,225,377	68,197	**5.6**
2007/08	1,241,477	61,473	**5**
2008/09	1,247,233	[5]42,571	[5]**3.4**
Total		**477,159**	

[5] **indicates only six months of data has been entered for 2008/09; data is not adjusted to total the year.**

17. Examination of the data showed that while the proportion of properties joining the ratings list remains relatively constant over the years, there was no clear trend in properties under the small business thresholds joining the ratings list. Therefore using this data to predict future costs was thought to be an inaccurate method of costing the amendment. Instead we produced retrospective costs, referring to the costs that could have been incurred had this amendment been in place since the introduction of the SBRR scheme in April 2005.

18. Although we have used historical information to calculate the cost of amending this policy, we are confident that the numbers of small non domestic properties added to the list in future years will not vary substantially from those additions in the past. Examining the figure in table 2 numbers of new small properties to the list does not vary significantly from year to year, which suggests that this characteristic is relatively stable.

19. Table 3 below shows the retrospective costs calculated under six different scenarios:
    a. ***High take up, relief taken at start of year*** – All new properties joining the ratings list are occupied by eligible small businesses within a particular year on the 2nd April, therefore being eligible for 12 months of relief;
    b. ***High take up, relief taken throughout year*** - All new properties joining the ratings list are occupied by eligible small businesses , but claims are spread evenly throughout the year, therefore most properties being eligible for an average of 6 months of relief;
    c. ***Moderate take up, relief taken at start of the year*** – high proportion (50%) of properties that join the ratings list are occupied by eligible small businesses within a particular year, with those businesses claiming on the 2nd April, therefore being eligible for 12 months of relief
    d. ***Moderate take up, relief taken throughout the year*** – high proportion (50%) of properties that join the ratings list are occupied by eligible small businesses within a particular year, with those businesses claiming evenly throughout the year, therefore most properties being eligible for an average of 6 months of relief
    e. ***Low take up, relief taken at start of the year*** – low proportion (15%) of properties that join the ratings list are occupied by eligible small businesses within a particular year, with

those businesses claiming on the 2nd April, therefore being eligible for 12 months of relief

f. ***Low take up, relief taken throughout the year*** – low proportion (15%) of properties that join the ratings list are occupied by eligible small businesses within a particular year, with those businesses claiming evenly throughout the year, therefore most properties being eligible for an average of 6 months of relief.

Figure 1: exemplification of the six scenarios above

		Take up		
		15%	50%	100%
Length	6 months	Low take up, relief taken throughout the year	Moderate take up, relief taken throughout the year	High take up, relief taken throughout year
	12 months	Low take up, relief taken at start of the year	Moderate take up, relief taken at start of the year	High take up, relief taken at start of the year

20. It is important to be aware that we have no information about the identity of the occupiers of these properties, and therefore how many of the additions to the ratings list will be eligible to claim relief. For the two low take up scenarios we have assumed 15% take up of SBRR as this is in line with the lower calculable percentage of properties under the threshold occupied by businesses claiming SBRR.

Notes that accompany table 3 (found overleaf):

How to interpret this table:

1. The figures in this table are based on the number of properties below the SBRR threshold added to the ratings list in a financial year. In practise some of the small businesses on the ratings list are advertising hoardings/stations, or other circumstances (for example the owners may have multiple properties) may restrict some of these properties from being able to claim small business rate relief
2. For scenarios where 'evenly throughout the year' is stated, this means that the estimated costs were based on the additions to the ratings list that *actually* occurred during that year. We therefore used the actual additions profile rather than assuming that all businesses would claim mid way through the year.
3. For 2008/09 we have had six complete months of data available to us about the additions to the list; our costs are based on this data. No forecasts or predictions have been made about what may happen in the next six months as the data are too volatile.
4. Relief to be given out is based on the average RV within the RV bands supplied by the VOA. This methodology was used because property level information is not available.

Table 3: Estimated costs of amending the scheme. These figures are based on data provided by the VOA and estimate the costs that would have been incurred if the amendment were in place at this time.

		2005/06			2006/07			2007/08			2008/09		
		Cost (£million)	Effect on multiplier (pence)	Percentage cost added	Cost (£million)	Effect on multiplier (pence)	Percentage cost added	Cost (£million)	Effect on multiplier (pence)	Percentage cost added	Cost (£million)	Effect on multiplier (pence)	Percentage cost added
High cost scenarios	(i) High take up, relief taken at start of the year	82.3	0.18	40.8	82.7	0.18	32.8	75.7	0.15	32.2	51.6	0.12	19.4
	(ii) High take up, relief taken throughout year	41.1	0.089	20.4	41.3	0.088	16.4	38.3	0.077	16.3	36.6	0.082	13.8
Likely scenarios	(i) Moderate take up, relief taken at start of the year	41.1	0.089	20.4	41.4	0.088	16.4	37.9	0.076	16.1	25.7	0.058	9.7
	(ii) Moderate take up, relief taken throughout the year	20.6	0.044	10.2	20.7	0.044	8.2	18.9	0.038	8.1	18.3	0.041	6.9
	(iii) Low take up, relief taken at start of the year	12.3	0.027	6.1	12.4	0.027	4.9	11.4	0.023	4.8	7.7	0.017	2.9
	(iv) Low take up, relief taken throughout the year	6.2	0.013	3.1	6.2	0.013	2.5	5.7	0.012	2.4	5.5	0.012	2.1

21. Table 4 below shows our projected impact of the policy over the next 10 years. We have upper and lower estimates of the policy which are also shown below. This suggests that over 10 years this amendment will allow an extra £163 million of relief to be made available to small businesses.

Table 4: Showing the net present value of the amendment of this policy over the next 10 years.

NET present Value	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Upper Estimate (£m)	37.9	36.6	35.4	34.2	33.0	31.9	30.8	29.8	28.8	27.8	326
Lower Estimate (£m)	11.4	11.0	10.6	10.3	9.9	9.6	9.3	9.0	8.7	8.4	98
Mid Estimate (£m)	18.9	18.3	17.6	17.0	16.5	15.9	15.4	14.9	14.4	13.9	163

Examples of Impact on affected businesses;

22. The following two paragraphs detail the impact of the amendment would have had on affected businesses in 2007/08. These scenarios are illustrative only, but represent examples of how this amendment could be received;

    - *Owner of a new business*: A business set up on the 2nd April 2007 occupies a single property worth £4,500 RV. Under the current system, with the multiplier set that year at 44.1p (2007/08) they would have been liable to pay £1,984 in business rates for the rest of that year, assuming no other reliefs. If the scheme had been updated to include the 1st April amendment then, the owner of the business would only be liable to pay £992 that year – a saving of £992 or 50%.

    - In the same year an existing business occupies a property worth £56,000. This business paid rates according to the large businesses multiplier set at 44.4p (2207/08) which included a 0.3p supplement to finance the SBRR scheme. That amounted to £24,864 in business rates for the year. If the scheme had changed within this year (2007/08) to allow the amendment, the multiplier would have risen to between 44.413p (low take up, claims made throughout the year) and 44.488p (moderate take up, claims made at the start of the year), meaning that the business's rates would have risen to between £24,871 and £24,913 for the year, a rise of between £7 (0.03%) and £49 (0.2%).

Key assumptions, sensitivities & risks

23. Our analysis has been largely based on retrospective analysis, however we have made a number of key assumptions about how this will affect the future costs of the scheme;

    - That the current operation of the scheme will remain the same, and the scheme will remain revenue neutral.
    - We have assumed that 100% of property additions to the ratings list as suggested by the data from the VOA will be occupied by businesses eligible to claim SBRR, apart from the scenarios where we reduce this percentage.
    - We know that this is an overestimation as many of the properties will not meet the eligibility criteria necessary for the scheme, but we do not know the extent to which this is the case.
    - The lower scenarios are either 50% or the lower calculable percentage of properties under the threshold occupied by businesses claiming SBRR currently.
    - We have assumed no other reliefs received by businesses considered to be eligible. If small businesses receive other reliefs, the cost of allowing SBRR will reduce.

24. The key sensitivity regarding this amendment is the number of new small businesses who claim SBRR. While there is a clear benefit resulting from this amendment, a much larger than expected number of businesses claiming relief within any one year may result in an overall deficit in regard to the amount of revenue raised by larger businesses to pay for the relief.

25. Based on the analysis shown in table 3 above, would suggest that we would expect the amendment to cost £18.9 million (range of £5.7 million to £75.7 million) within any one year (based on estimated

costs for 2007/08). This represents an 8.1% cost added to the scheme (range 2.4% to 32.2%). This cost would be funded by an increase in the small business supplement, paid by larger businesses. This cost would have been funded by an increase in the small business supplement of 0.038p, paid by larger businesses. This would have increased the annual rates bill for an average large business by approximately 0.086%.

26. We would expect that the high cost scenarios to be unlikely and represent the outer limits of the cost of the scheme within any one year. It is more likely, given past number of properties occupied by small businesses that scenarios with low to moderate take up (please see table 3 above) are more likely to reflect the future cost of the scheme. It is important to note that an increase in the number of new properties and occupation of these by eligible small businesses greater than those considered under the two scenarios of low take up will increase the cost of the scheme.

Social Costs & Benefits

27. There are no estimated social costs and benefits associated with this amendment.

Environmental Costs & Benefits

28. There are no estimated environmental costs and benefits associated with this amendment.

Impact on 'main affected groups'

29. *Small businesses* are the main group affected by this amendment. This policy will allow these businesses to claim relief at an earlier stage, therefore reducing their tax burden from the date an eligible small business occupies a property with a low rateable value. This amendment will also simplify the scheme meaning that these small businesses will not pay disproportionate business rates in comparison with small businesses who have occupied properties that have been on the ratings list from before the 1 April. Any increase in the numbers of small businesses joining this scheme is beneficial; fewer small businesses are making use of the relief available to them.

30. However, not all small businesses, employing less than 50 people, may occupy only one property and/or a property below the Rateable Value threshold to claim SBRR. The impact of the changes to the legislation for these small businesses is minimal as the increase in rates bills for all businesses not claiming SBRR is estimated to be between 0.03% and 0.2%.

31. *Large businesses* are also affected by this policy, as seen by an increase in the small business supplement they will have to pay to finance the scheme. We expect that this will not significantly add to their rates bill (as seen in the case studies associated with paragraphs 21 and 23 above), but a much larger increase in the numbers of small businesses joining the scheme will increase the supplement paid by larger businesses.

32. *Local authorities* have a responsibility to the small businesses in their area by providing information about the relief scheme to potential beneficiaries. Local authorities include with rate bills information about the small business rate relief scheme and the availability of other reliefs and this amendment will not alter the current system of making potential beneficiaries aware of the scheme. However it should be noted that there may be a small change required to the computer system/software and guidance notes accompanying bills, which are printed each year. The guidance notes accompanying bills are issued as part of the annual billing round and it is not envisaged that impact from the amendment should impact greatly upon the annual allowance for local authorities to bill and collect business rates.

33. There is also potential for administrative savings for local authorities from a reduction in the number of enquiries received from ratepayers who are unaware of the 1 April criterion and reducing the length of telephone calls explaining to ratepayers, some of whom have downsized to reduce their rates liability, why they can't have SBRR on the 'new' assessment until the following financial year. Furthermore some local authorities at the start of the financial year run a programme to pick up all the new small assessments that have come into the list since the previous 1st April and send out SBRR application forms and it would be much easier and cost effective to send these out with the original bills when the ratings list was changed.

Enforcement

34. Local authorities manage and enforce the SBRR application process, which is not being significantly altered by the amendment and enforcement of SBRR will continue along existing mechanisms. It is not envisaged that the amendment to SBRR will add specifically any costs or will impact generally on enforcement of the SBRR policy.

Admin Burden & Hampton Principles

35. This policy should not increase the administrative burden on Local Authorities who will not have to refuse relief anymore from otherwise eligible businesses that have applied and it should also reduce enquires from ratepayers (see paragraphs 29 to 30 above).

36. The policy will not represent an additional burden for businesses affected by this scheme, as this policy will not require additional regulation or need for administration. This policy adheres with the important Hampton Principle of allowing economic progress by increasing the protection made to businesses; in this case shown by reducing the tax burden on small businesses.

EU Requirements

37. The proposal for the removal of the 1 April criterion does not relate to any EU Legislation.

Value of offsetting measure

38. The government is not proposing any offsetting measure as SBRR is a revenue neutral, self financing scheme.

Greenhouse emissions

39. The removal of the 1 April criterion will not in itself have any effect on greenhouse emissions.

Competition Assessment

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

Small Business Impact Test

41. Small businesses are the main group affected by this amendment. This policy will allow these businesses to claim relief, therefore reducing their tax burden from the date an eligible small business occupies a property with a low rateable value. This amendment will also simplify the scheme meaning that these small businesses will not pay disproportionate business rates in comparison with small businesses who have occupied properties that were on the ratings list on the 1 April. Any increase in the numbers of small businesses joining this scheme is beneficial; fewer small businesses are making use of the relief available to them.

42. However, not all small businesses, employing less than 50 people, may occupy only one property and/or a property below the Rateable Value threshold to claim SBRR. The impact of the changes to the legislation for these small businesses is minimal as the increase in rates bills for all businesses not claiming SBRR is estimated to be between 0.03% and 0.2%.

Rural proofing

43. The amendment to SBRR is expected to have broadly equivalent impacts in rural and urban areas.

Race equality

44. The initial screening test was completed and concluded that this policy would not require a full race equality impact assessment.

Disability equality

45. The initial screening test was completed and concluded that this policy would not require a full disability equality impact assessment.

Gender equality

46. The initial screening test was completed and concluded that this policy would not require a full gender equality impact assessment.

Health Impact Test

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

Human rights

48. There are two provisions of the European Convention which could be relevant to the amendment to SBRR - Article 1 of the First Protocol and Article 14.

49. 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 amendment to SBRR is in the public interest and proportionate to the policy aims.

50. 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.

Implementation/next steps

51. This Impact Assessment is attached to the regulations that will implement the amendment to the SBRR scheme.

52. In regard to monitoring of the policy, the Department currently collects data on the number of properties claiming small business rates relief and the amount of relief given as part of the annual collection of National Non-Domestic Rates statistics. It is intended that we will continue to monitor the general Small Business Rate Relief scheme as part of this annual collection of statistics.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

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

Annexes

Annex A - Data used for Analysis

1. There are three main data sources which have been used to estimate costs within this analysis. These sources are; data from VOA about the number of small businesses within specified Rating Value (RV) limits, data from the NNDR3 forms which will inform about previous costs of the scheme, and the NNDR1 and NNDR1S forms which are used to inform about future costs of the scheme. Each of these data sources is discussed in the table below.

Table 1: Description of data to be used during analysis

Description	Source	Frequency	Most Recent	Purpose
(A) Information on the number of heriditaments moving into the ratings list within each month of the financial year. Heriditaments are expressed as totals within a local authority and by property RV categories; (i) Less than £5,000 RV, (ii) between £5,000 and £10,000 RV, (iii) between £10,000 and £15,000 RV non London, and (iv) between £10,000 and £21,500 RV in London. Information is also available for the number of heriditaments on the lists at the start of the year (i.e. those who would qualify for relief under the current system)	VOA	Annually from April 2001(i.e. seven years of data)	April 2007 to March 2008	1. Calculate the amount of relief that could have been given out to new entrants to the ratings list 2. Use the information about heriditaments currently on the ratings list to estimate the increase in cost of the amendment 3. Use information about heriditaments currently on the list in conjunction with (B) and (C) to estimate a take up rate
(B) Retrospective information on the yield local authorities have collected to finance the current SBRR scheme, and the cost of the scheme.	NNDR3	Annually	2006/07	1. Use in conjunction with (A) to estimate a take up rate for the current scheme. 2. Use in conjunction with (A) and (C) to estimate how the amendment would have affected the multiplier in previous years
(C) Prospective information on the yield local authorities expect to collect to finance the current SBRR scheme, and the likely cost of the scheme	NNDR1	Annually	Available for 2008/09	1. Use in conjunction with (A) to estimate a take up rate for the current scheme. 2. Use in conjunction with (A) and (B) to estimate how the amendment would have affected the multiplier in previous years

Limitations in Data

1. *Limitations in the data from the VOA*: although we have comprehensive information about the number of properties moving into and out of the ratings list, it does not tell us about the eligibility of any of these properties to claim SBRR. It could be that a take up rate based on relief is too crude a method to understand how the scheme works. The data we have does not cover a whole revaluation cycle (previous cycle April 2000- March 2005, current April 2005-March 2010), meaning that we cannot look at previous revaluation cycles to reliably judge what may happen towards the end of the current cycle.

2. *Limitations in calculation of take up rate*: The timing of the VOA data used to calculate current take up has been made retrospectively and is discordant with the data used from the NNDR1/3 forms. While this issue should not present a large problem, it can introduce unavoidable discrepancy.

3. *The multiplier*: The multiplier is set at the start of the financial year and therefore it is possible to misjudge it if an unexpected number of new entrants were to join within the year. Given the data in table 1 and in Annex A, it would seem likely that at current take up rates that the amendment would not impose a significant impact on the multiplier.

Annex B - Showing the effect on the multiplier for new business start ups

The following tables show the effect on the multiplier for increasing take up rates, and for different numbers of months of relief given out. 12 months refers to all properties joining the ratings list on the 2nd of April, and therefore being eligible for relief for the 12 remaining months of the year. Subsequent 9, 6, and 3 months shows the effect if relief was claimed for less time.

	Take up rate 2005/06 - effect on the multiplier figures shown in pence										
	10%	15%	20%	30%	40%	50%	60%	70%	80%	90%	100%
12 months	0.018	0.027	0.036	0.53	0.071	0.089	0.11	0.12	0.14	0.16	0.18
9 months	0.013	0.02	0.027	0.04	0.053	0.067	0.08	0.093	0.11	0.12	0.13
6 months	0.009	0.013	0.018	0.027	0.036	0.044	0.053	0.062	0.071	0.08	0.089
3 months	0.004	0.007	0.009	0.013	0.018	0.022	0.027	0.031	0.036	0.04	0.044

	Take up rate 2006/07 - effect on the multiplier figures shown in pence										
	10%	15%	20%	30%	40%	50%	60%	70%	80%	90%	100%
12 months	0.018	0.027	0.035	0.053	0.071	0.088	0.11	0.12	0.14	0.16	0.18
9 months	0.013	0.02	0.027	0.04	0.053	0.066	0.08	0.093	0.11	0.12	0.13
6 months	0.009	0.013	0.018	0.027	0.035	0.044	0.053	0.062	0.071	0.08	0.09
3 months	0.004	0.007	0.009	0.013	0.018	0.022	0.027	0.031	0.035	0.04	0.044

	Take up rate 2007/08 - effect on the multiplier figures shown in pence										
	10%	15%	20%	30%	40%	50%	60%	70%	80%	90%	100%
12 months	0.015	0.023	0.03	0.045	0.061	0.076	0.091	0.11	0.12	0.14	0.15
9 months	0.011	0.017	0.023	0.034	0.046	0.057	0.068	0.08	0.091	0.1	0.11
6 months	0.008	0.011	0.015	0.023	0.03	0.038	0.046	0.053	0.061	0.068	0.076
3 months	0.004	0.006	0.008	0.011	0.015	0.019	0.023	0.027	0.03	0.034	0.038

	Take up rates for 2008/09 - effect on the multiplier figures shown in pence**										
	10%	15%	20%	30%	40%	50%	60%	70%	80%	90%	100%
12 months	0.012	0.017	0.023	0.035	0.046	0.058	0.069	0.081	0.092	0.104	0.115
9 months	0.009	0.013	0.017	0.026	0.035	0.043	0.052	0.061	0.069	0.078	0.087
6 months	0.006	0.009	0.012	0.017	0.023	0.029	0.035	0.040	0.046	0.052	0.058
3 months	0.003	0.004	0.006	0.009	0.012	0.014	0.017	0.020	0.023	0.026	0.029

****Please note that the effect on the multiplier for 2008/09 is based on only six months of data**