



Department for
Communities and
Local Government

Business Rates Revaluation 2017

Consultation on the transitional arrangements for the 2017
business rates revaluation



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Scope of the consultation

Topic of this consultation:	This consultation seeks views on the proposed transitional arrangements to phase in changes in business rate bills from the 2017 business rates revaluation.
Scope of this consultation:	Under section 57A of the Local Government Finance Act 1988, the Secretary of State must introduce transitional arrangements for each business rate revaluation. Regulations made under section 57A must come into force by 1 January preceding the revaluation. This consultation seeks views on the government's proposals for those transitional arrangements.
Geographical scope:	These proposals relate to England only.
Impact Assessment:	The proposed policy changes are not within the scope of the Reducing Regulation Committee and so do not need an Impact Assessment for this purpose.

Basic Information

To:	This consultation is aimed at business ratepayers and local government.
Body/bodies responsible for the consultation:	The Secretary of State for Communities and Local Government
Duration:	This consultation will last for 4 weeks from 28 September to 26 October 2016.
Enquiries:	For any enquiries about the consultation please contact ndr@communities.gsi.gov.uk
How to respond:	<p>You may respond by emailing your response to the questions in this consultation to ndr@communities.gsi.gov.uk. Please title the email:</p> <p style="text-align: center;">“transitional relief consultation response”.</p> <p>If you are responding in writing, please make it clear which questions you are responding to.</p> <p>Written responses should be sent to:</p> <p style="text-align: center;">Local Taxation Division, Fry Block South East Corner 2nd Floor 2 Marsham Street London SW1P 4DF</p>

	<p>When you reply it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:</p> <ul style="list-style-type: none">- your name,- your position (if applicable),- the name of organisation (if applicable),- an address (including post-code),- an email address, and- a contact telephone number

The 2017 Business Rates Revaluation

Introduction

1. The next revaluation of all properties for business rates will take effect from 1 April 2017. Revaluation is done to maintain the accuracy in the rating system by reflecting changes in the property market since the last revaluation in 2010. Revaluation does not raise extra revenue for the Exchequer. This is because the government will reduce the tax rate – known as the multiplier – to offset the overall change in rateable value.
2. At Budget 2016 the government announced the biggest ever cut in business rates – worth £6.7bn over the next five years. The package cut business rates for all ratepayers. From next April, 600,000 businesses will pay no business rates at all and the revaluation will mean nearly three out of every four businesses will see their bills fall or stay the same.
3. For the minority facing increases, the government’s preferred option for transitional relief will be worth £3.4 billion. For those ratepayers facing increases, London will benefit more than anywhere else in the country from the transitional relief scheme. In total properties in London will benefit from transitional relief worth almost £1bn over the life of the scheme. Over 140,000 properties in London will benefit from transitional relief of which over 100,000 are small properties¹.

The 2017 Business Rate Revaluation

Table 1: Estimated percentage change in bills at 2017 revaluation.						
	Central	Retail	Offices	Industry	Other	Total
North East		-16%	-21%	-9%	-1%	-11%
Yorkshire & Humber		-11%	-21%	-9%	-4%	-10%
North West		-15%	-14%	-12%	0%	-10%
West Midlands		-11%	-16%	-7%	1%	-7%
East Midlands		-5%	-2%	-7%	3%	-3%
East		-13%	-7%	-7%	2%	-6%
South West		-14%	-10%	-5%	1%	-6%
South East		-8%	-3%	-4%	6%	-2%
London		14%	10%	4%	14%	11%
Central list	28%					28%
Total	28%	-5%	1%	-6%	5%	0%
Before inflation and the adjustment to the multiplier for future appeal outcomes. All bills before transitional relief and small business rate relief.						

¹ Based on the government’s preferred option, option 2

4. Rateable values are set independently of Ministers by the Valuation Office Agency (“VOA”). The VOA will publish all rateable values in draft on their website². We estimate the impact of the revaluation on rate bills before the transitional arrangements and other reliefs (such as small business rate relief) to be as shown in table 1 above.

Revaluation and the local government rates retention scheme

5. At the local authority level, business rates income from 1 April 2017 will increase or fall depending upon the outcome of the revaluation in the local authority area. This creates change in the business rates retention system outside the control of local authorities. When the Government introduced the 50% business rates retention scheme, it signalled that it would adjust each authority’s position in the scheme following a revaluation, to ensure, as far as is practicable, that their retained income is the same after revaluation as immediately before. This will ensure that the growth incentive, created by the business rates retention scheme, will not be weakened by losses of income outside the control of authorities. We are consulting separately with local government on this adjustment³.

Transitional arrangements

6. Many ratepayers will see only a small change in their business rates bill at the revaluation. However, some properties will see a more significant change – both increases and reductions. Transitional arrangements are used to phase in these changes.
7. The transitional arrangements will support ratepayers by allowing them time to adjust to their new business rates bills⁴. Those ratepayers facing increases (who will be in sectors and locations where rateable values have increased more than the average) will see their bill capped each year at a set percentage increase due to the revaluation⁵. Those businesses will be able to plan for their future business rates bills.
8. The Government will ensure, (as far as is practicable), that the transitional arrangements are self-funding and that neither the government nor ratepayers overall are financially disadvantaged as a result of the scheme⁶. The cost of the relief for those ratepayers facing increases must be funded from other ratepayers.

² <https://www.gov.uk/guidance/revaluation-of-business-rates>. This will be done by 30 September.

³ <https://www.gov.uk/government/consultations/local-government-finance-settlement-2017-to-2018-technical-consultation>

⁴ Properties which are shown in the rating list for either 31 March 2017 with a rateable value of nil or 1 April 2017 with a rateable value of nil will not be eligible for the transitional arrangements.

⁵ As with the 2010 transitional arrangements, the caps on increases and reductions will be calculated before the large property and London supplements. Changes in business rate bills for reasons unconnected to the revaluation (such as changes to the property or other reliefs) are also outside of the transitional arrangements.

⁶ Section 57A(10) and (12) of the Local Government Finance Act 1988.

9. The Government has considered in principle whether the cost of the scheme should be spread evenly over all other ratepayers using a supplement on the multiplier. However, this method of funding the transitional arrangements would mean all other ratepayers would make the same percentage contribution to the cost of the transitional arrangements (based on their rateable value) irrespective of the degree to which they have benefitted from the revaluation. The Government does not believe this would be a fair way of paying for the transitional arrangements.
10. Therefore, for 2017, the Government will fund the transitional arrangements by also limiting annual reductions in bills due to the revaluation. This will replicate the system for funding the scheme adopted at every revaluation since 1990.

Thresholds in the transitional arrangements

11. The rateable value thresholds in the transitional arrangements for small properties have historically been higher than those adopted in other relief schemes such as the small business rate relief scheme. The Government proposes to continue with this for the 2017 transitional arrangements and adopt a threshold for small properties of less than or equal to £28,000 in Greater London and £20,000 elsewhere. Additionally, the options below also include a new threshold for large properties with a rateable value above £100,000.

Options for transitional arrangements

12. The government is consulting upon two options for transitional arrangements for the 2017 revaluation. Each option is explained below.
13. The transitional arrangements work by giving ratepayers the certainty of a cap on the annual increase or reduction in their bill due to the revaluation. The caps shown are for each year of the scheme. So for example, in both options below, the caps on increases in the first two years for small properties are 5% and then 7.5% - this is a cumulative increase by the end of year two of 12.9% before inflation. Ratepayers leave the transitional relief scheme once they reach their full bill. So a small property facing an increase of 10% would reach their full bill in year two.
14. All caps are shown before inflation. Inflation will be applied based on the change in the retail price index between September 2015 and September 2016.

Option 1

15. Option 1 would offer the same level of support, in percentage terms, to small and medium properties facing increases as has been provided at the last two revaluations in 2005 and 2010. A third band provides a different level of support to the largest ratepayers who are better placed to anticipate and manage the impacts of the revaluation. The relief is funded by 2 sets of caps on reductions (again as in 2005 and 2010):

Option 1: Transitional Arrangements 2017 revaluation (before inflation) funded by two caps on reductions						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	33.0%	29.0%	30.0%	27.0%	13.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium & Large	4.1%	5.6%	5.9%	5.8%	4.8%

Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2. Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

16. The table below shows the number of properties falling within option 1.

Option 1: Number of properties affected						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	500,000	368,000	241,800	132,000	72,700
	Medium	86,900	44,400	19,400	7,900	3,800
	Large	13,100	4,500	1,500	700	500
	Total	600,000	416,800	262,700	140,600	77,000
Downwards Cap	Small	140,900	17,700	4,000	800	100
	Medium	168,800	141,200	72,300	50,100	37,200
	Large	49,800	39,900	20,100	13,000	8,800
	Total	359,500	198,900	96,400	63,900	46,100
Not in transition		874,800	1,218,500	1,475,100	1,629,700	1,711,100

Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

17. Under this scheme, over 600,000 properties will receive protection from increases in bills in year one and over 77,000 will continue to receive help over the full 5 years. 13,000 large properties (with a rateable value above £100,000) see increases capped at 33% of which almost a third are in London.

18. However, in order to fund the transitional arrangements, both medium and large properties will see their benefits from the revaluation limited. In year one, 219,000 medium and large properties will see their reductions capped and 46,000 of those will remain in transition (held above their lower bill) for the full 5 years.

Question 1: what are your views on option 1?

Question 2: do you support option 1?

Option 2

19. Option 2 allows medium properties that stand to gain from the revaluation to see their reductions come through quicker than under option 1. To pay for this less relief is provided to large properties.

Option 2: Transitional Arrangements 2017 revaluation (before inflation) funded by 3 caps on reductions						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	45.0%	50.0%	50.0%	16.0%	5.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium	10.0%	15.0%	20.0%	25.0%	25.0%
	Large	4.1%	4.6%	5.9%	5.8%	4.8%

Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2. Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

Option 2: Number of properties affected						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	500,000	368,000	241,800	132,000	72,700
	Medium	86,900	44,400	19,400	7,900	3,800
	Large	8,800	1,600	500	300	300
	Total	595,700	413,900	261,700	140,200	76,800
Downwards Cap	Small	140,900	17,700	4,000	800	100
	Medium	93,800	37,500	9,800	1,400	200
	Large	49,800	41,500	21,700	14,100	9,700
	Total	284,500	96,700	35,500	16,300	10,000
	Not in transition	954,000	1,323,500	1,537,000	1,677,600	1,747,400

Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

20. Under option 2, medium properties benefitting from the revaluation would see the reduction in their bill capped at 10% rather than the 4.1% proposed in option 1. This ensures that, in 2017/18, less than 94,000 medium properties are held above their lower bill. By year 5 all but 200 medium properties will have reached their full lower bill. This also means that only 10,000 are expected to remain in transition to a lower bill over the whole of the period of the relief scheme compared to 46,100 properties in Option 1. This means an additional 36,100 properties would reach their lower bill in Option 2 than compared to Option 1.

21. However, to offset the cost of this change, option 2 provides less protection for large ratepayers (with a rateable value of more than £100,000) when compared to option 1. As a result, the maximum increase for large properties in year one would be 45%.

Question 3: what are your views on option 2?

Question 4: do you support option 2?

22. Supplementary tables with more detail on both options are available alongside this consultation document on the DCLG website.

Preferred option

23. The Government believes that indicating a preferred option for the transitional arrangements will allow for a more meaningful consultation and will also assist ratepayers in their business planning. The Government's preferred option is Option 2. This scheme enables a large number of medium properties which have benefitted from the revaluation to move to their lower bill faster than option 1. As a consequence, only 10,000 properties are expected to remain in transition to a lower bill over the full period of the scheme.

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.
Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.