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Llywodraeth Cymru
Welsh Government

Welsh Government Consultation Document

Proposed arrangements to provide transitional relief to support small businesses adversely affected by the 2017 non-domestic rates revaluation

Date of issue: 30 September 2016
Action required: Responses by 4 November 2016

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

Overview	<p>This is a consultation on transitional relief for small businesses affected by the 2017 non-domestic rates revaluation. We want your views and comments on the practical application of the proposed transitional relief scheme, to support properties whose eligibility for Small Business Rates Relief will be affected by increases in their rateable value as a result of the 2017 non-domestic rates revaluation.</p>
How to respond	<p>Responses can be emailed or sent direct to:</p> <p>Local Government Finance Policy Welsh Government Cathays Park Cardiff CF10 3NQ e-mail: LGF1Consultations@wales.gsi.gov.uk</p>
Further information and related documents	<p>Large print, Braille and alternative language versions of this document are available on request.</p>
Contact details	<p>For further information, or queries regarding this consultation, please email:</p> <p>LGF1Consultations@wales.gsi.gov.uk Local Government Finance Policy Welsh Government Cathays Park Cardiff CF10 3NQ</p>
Data protection	<p>How the views and information you give us will be used</p> <p>Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.</p> <p>The Welsh Government intends to publish a summary</p>

of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response.

This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

2017 Non-Domestic Rating Revaluation – Consultation on Proposed Transitional Arrangements

Introduction

The next non-domestic rates revaluation takes effect on 1 April 2017. The purpose of the revaluation is to maintain fairness by ensuring rateable values are based on up-to-date rental values. The revaluation does not raise any extra revenue so some rates bills will rise and some will fall, based on relative changes in values.

The Welsh Government proposes to introduce transitional arrangements to assist small businesses whose eligibility for Small Business Rates Relief will be adversely affected as a result of the revaluation.

This consultation paper considers how these transitional arrangements should be implemented.

Background

Non-domestic rates (NDR), often known as business rates, are paid by occupiers, tenants or proprietors of most non-domestic properties. Local authorities administer the system, issue bills and collect payments.

This tax is largely devolved to the Welsh Government and the revenue collected is distributed in full to local authorities and police and crime commissioners to provide funding for local services.

The rateable values of properties are set independently by the Valuation Office Agency (VOA) and are primarily based on the rent a property would fetch on the open market at a fixed point in time. In line with provisions in the Local Government Finance Act 1988, the multiplier is set annually by the Welsh Government.

A rates bill is generally calculated by multiplying the rateable value of the property by the multiplier, less any reliefs the property or ratepayer is eligible to receive, for example Small Business Rates Relief or charitable relief.

Revaluation

To ensure bills remain up-to-date, rateable values of properties are reassessed at regular intervals by the VOA as part of a revaluation process. The last revaluation exercise was in 2010 and the next revaluation takes effect from 1 April 2017, based on rental values at the fixed point of 1 April 2015. Using the same fixed point in time for everyone ensures fairness.

The amount of revenue collected in rates does not change, in real terms, because of the revaluation. Instead, the purpose of revaluation is to redistribute rates liability 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.

Whilst the revaluation itself does not raise extra revenue, as some locations or types of property become more in demand, their rental values rise as businesses pay more to be located in these areas. Whilst in other areas demand falls, with rental values

decreasing, relative to the national average. As a result, at each revaluation individual rates bills may rise, fall or remain the same.

Transitional relief

Transitional relief has previously been provided to assist ratepayers facing a significant change in their liability by phasing in changes over a number of years, capping significant increases at a set percentage.

The most recent transitional relief was provided for the period beginning on 1 April 2000 and was only available for properties with a rateable value under a set threshold where the chargeable amount had increased by more than a set percentage. This relief was funded entirely by ratepayers and not a Welsh Government subsidy, meaning every pound capped for one ratepayer was funded from a ratepayer who would have otherwise seen a reduction in their bill.

This consultation paper considers an option to put arrangements in place to phase in changes in individual rate bills arising from the 2017 revaluation. This would function as a form of transitional relief and the costs of the scheme will be funded entirely by the Welsh Government.

The proposed transitional relief scheme is set out below.

Transitional relief for ratepayers whose eligibility for Small Business Rates Relief (SBRR) will be affected as a result of the revaluation

The Welsh Government recognises that non-domestic rates can represent a higher proportion of overheads for smaller businesses than larger businesses. In addition to this, smaller businesses may be less able to cope with sudden, large increases in their rates bills.

Approximately half of all ratepayers will continue to pay nothing following the 2017 revaluation, as a result of support provided by the Small Business Rates Relief Scheme, and a further 20,000 ratepayers will qualify for tapered relief.

However, there will be some small businesses whose eligibility for SBRR will be adversely affected by increases in their rateable value following the revaluation. For these ratepayers any resultant increases in liability could be substantial and will be compounded by a reduction in relief. This is particularly the case for ratepayers who qualified for 100% relief prior to the revaluation and paid no rates but after revaluation will not qualify for SBRR.

As a result, it is proposed that a transitional rates relief scheme will be introduced to assist ratepayers in receipt of SBRR on 31 March 2017 who would experience a reduction in the percentage of SBRR they are entitled to on 1 April 2017, due to increases in their rateable value following the revaluation.

SBRR will be applied prior to transitional relief. The transitional relief will work by phasing in any resultant increases in liability over a three-year period (25% of increased liability in year one, 50% in year two and 75% in year three) so that, by the start of the fourth year ratepayers are paying their full bill.

There are three main groups of ratepayers who would be targeted by such assistance:

- Ratepayers moving from full SBRR to partial SBRR;
- Ratepayers moving from full SBRR to no SBRR; and
- Ratepayers moving from partial SBRR to no SBRR.

The financial impact of a reduction in SBRR support as a result of the revaluation will depend on the rateable value of the property. The table below provides an illustrative example of the possible impact in year one for each of the three groups above.

2010 RV	Eligibility for SBRR	2016 Liability	2017 RV	Eligibility for SBRR	Liability Pre TR*	Liability After TR*	Financial Benefit
£6,000	100%	£0	£9,000	50%	£2,187	£547	£1,640
£6,000	100%	£0	£12,001	0%	£5,832	£1,458	£4,374
£8,000	66%	£1,296	£14,000	0%	£6,804	£2,673	£4,131

* Calculations use the 2016-17 multiplier of 0.486 for illustrative purposes

An example of how transitional relief will be calculated and will reduce a ratepayer's liability is provided as an annex to this consultation.

Advantages and Disadvantages

The Welsh Government believes there are a number of advantages in providing this form of transitional relief:

- It provides targeted relief to those ratepayers who are, in relative terms, the most affected by the revaluation, particularly those who would otherwise move from full SBRR to receiving no support. This is consistent with the intention to introduce a permanent, more targeted SBRR scheme from 2018;
- The relief scheme gives eligible small businesses three years to plan for and adjust their increased liability while also ensuring all ratepayers are paying their full bills at the start of the fourth year before preparation for the next revaluation exercise begins;
- The relief will be fully funded by the Welsh Government rather than being funded by restricting reductions in liability for ratepayers whose rateable value has fallen as a result of the revaluation. This means those ratepayers whose rateable values have fallen will benefit from the revaluation immediately rather than having to wait a number of years. The Welsh Government believes this is particularly important as the postponement of the 2015 revaluation has meant ratepayers have been paying rates based on 2008 values for seven years;
- Providing a fully-funded and targeted relief scheme means that changes in liability are more transparent and easier to understand for ratepayers than a scheme which also imposes caps on reductions in liability;

- Providing for a transitional relief scheme in regulations allows for the relief to be applied directly to ratepayers' bills, making sure all those eligible benefit and simplifying the administration process for local authorities.

However, the Welsh Government recognises there are also some disadvantages associated with this type of scheme:

- The scheme is still relatively complex and will require administration by local authorities as well as legislation and software changes to implement;
- As the scheme is targeted at a specific group of ratepayers it will only benefit a relatively small proportion of ratepayers;
- Larger ratepayers who see an increase in their rateable value following the revaluation will not be eligible for any assistance to phase in the increase in their liability, although they may be eligible for other forms of relief, such as charitable relief;
- As the scheme will be funded by the Welsh Government there will be opportunity costs.

Consultation questions

The Welsh Government is interested in comments you may have in relation to the proposed transitional relief scheme, particularly in relation to technical aspects of running such a scheme; the administrative implications and any processes or procedures that will need to be considered.

We also invite comments about the effects (whether positive or adverse) the amendments would have on ratepayers affected or excluded from this relief.

Lastly, comments are invited about the effects (whether positive or adverse) the introduction of such a relief would have on opportunities for persons to use the Welsh language and on treating the Welsh language no less favourably than the English language. In addition, we invite comments on whether the proposal could be formulated or revised to have positive effects or decreased adverse effects, on opportunities for persons to use the Welsh language and treating the Welsh language no less favourably than the English language.

Next Steps

Following the close of the consultation, the responses will be analysed and regulations drafted so they can come into force by 1 January 2017 to allow sufficient time for local authorities to incorporate the transitional relief scheme within their billing processes.

Annex - Example Calculation of Transitional Relief

Set out below is a worked example of how transitional relief will apply under the proposed scheme. The example in question uses a ratepayer who is eligible for partial SBRR prior to the 2017 revaluation.

(a)	Rateable value on 31 March 2017 ("A")	£8,000	Eligible for partial SBRR
(b)	Base liability ("BL")	£1,296	E = 3, and calculated using (A x B) / E
(c)	Rateable value on 1 April 2017 ("A")	£14,000	Not eligible for SBRR
(d)	Notional chargeable amount ("NCA")	£6,804	A x B
(e)	Increase in chargeable amount as a result of revaluation	£5,508	NCA - BL
(f)	Transitional relief for 2017-18 ("Year 1 TR")	£4,131	75% of the increase in chargeable amount in (e)
(g)	Chargeable amount for 2017-18	£2,673	NCA - Year 1 TR
(h)	Reduction in chargeable amount for 2018-19 ("Year 2 TR")	£2,754	50% of the increase in chargeable amount in (e)
(i)	Chargeable amount for 2018-19	£4,050	NCA - Year 2 TR
(j)	Reduction in chargeable amount for 2019-20 ("Year 3 TR")	£1,377	25% of the increase in chargeable amount in (e)
(k)	Chargeable amount for 2019-20	£5,427	NCA - Year 3 TR
(l)	Chargeable amount for 2020-21	£6,804	NCA

* For the purposes of the above table:

- B is the multiplier (using the 2016-17 multiplier)
- E is the figure calculated for the purposes of the SBRR Order 2015