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## FOR THE ATTENTION OF THE BUSINESS RATES SECTION

Dear Chief Finance Officer,

### **Business Rates information letter (7/2004): Proposals for the National Non-Domestic Rates 2005 Revaluation**

This is the Seventh Business Rates Information Letter to be issued by the Office this year. Previous letters are available on the internet at:

<http://www.local.odpm.gov.uk/finance/busrats1.htm>

This letter covers:

- the main trends from the valuation of non-domestic property
- proposed Transitional Arrangements
- proposed Small Business Rate Relief Scheme
- the Balance of Funding Review

### **Effects of the 2005 Revaluation**

1. This letter provides initial information about the impact of the business rates revaluation that will take effect from 1 April 2005.

2. Table 1 below shows the overall effect of revaluation as an average percentage change in rateable values and an average percentage change on rate bills.

**Table 1**

<b>Overall Effect of Revaluation 2005</b>		
<b>Region</b>	<b>Average % change in RV from the 2000 rating lists to the 2005 rating lists</b>	<b>Average % change in liability as a result of revaluation before reliefs are applied</b>
<b>East of England</b>	20.5	1.1
<b>East Midlands</b>	15.9	-2.8
<b>London</b>	17.1	-0.8
<b>North East</b>	15.0	-3.4
<b>North West</b>	14.9	-3.5
<b>South East</b>	20.2	0.7
<b>South West</b>	19.9	0.4
<b>West Midlands</b>	13.6	-4.5
<b>Yorkshire and Humber</b>	13.1	-5.3
<b>Central list</b>	32.9	10.5
<b>Total</b>	17.9	-

Note:

a. The third column simply deals with the effect of revaluation on rate bills before transition and other reliefs. In addition to this the final liability will be uprated to take account of the annual inflation increase.

3. Table 2 shows the percentage movement in rateable values and percentage change in average bills as a result of the 2005 revaluation by region and key property types - offices, shops, warehouses and factories.

**Table 2**

<b>Movement in Rateable Values - By Region and Property Types</b>								
<b>Region</b>	<b>Main Property Types</b>							
	<b>Offices</b>		<b>Shops</b>		<b>Warehouses</b>		<b>Factories</b>	
	<b>RV Change</b>	<b>Liability Average</b>	<b>RV Change</b>	<b>Liability Average</b>	<b>RV Change</b>	<b>Liability Average</b>	<b>RV Change</b>	<b>Liability Average</b>
<b>East</b>	16%	-2.6%	27%	7.3%	23%	3.3%	19%	0.4%
<b>East Mids</b>	18%	-1.4%	23%	3.6%	15%	-3.2%	12%	-6.0%
<b>London</b>	11%	-5.4%	26%	7.1%	23%	2.8%	22%	3.0%
<b>North East</b>	24%	2.2%	24%	4.8%	13%	-4.8%	13%	-5.6%
<b>North West</b>	18%	-0.5%	22%	3.0%	11%	-6.4%	10%	-7.3%
<b>South East</b>	8%	-9.0%	29%	8.4%	29%	8.8%	23%	3.4%
<b>South West</b>	21%	1.6%	27%	6.3%	16%	-2.3%	14%	-4.8%
<b>West Mids</b>	15%	-3.8%	20%	0.7%	11%	-6.6%	6%	-11%
<b>Yorks &amp; Humber</b>	14%	-3.9%	26%	6.0%	12%	-5.7%	9%	-8.3%
<b>England</b>	13%	-4.7%	25%	5.7%	18%	-0.5%	14%	-4.2%

Notes

a. "RV change" reflect the average percentage increase in rateable value from the 2000 rating lists to the 2005 rating lists.

b. "Liability average" is the average change in liability as a result of revaluation before reliefs are applied.

4. The purpose of revaluations is to distribute tax in a more equitable way by updating the valuation of property, thereby making the tax base more current and relevant. Therefore the multiplier is adjusted accordingly, the tables therefore also show the average effect of revaluation on rate bills.

5. This information provides important indicators of national trends. However, it is not necessarily a good predictor of changes in an individual's rates bill since these will be affected by local differences and by factors that are specific to the individual property. Nevertheless, in England as a whole, nearly 60% of properties will see a relative fall in their rateable values and therefore a fall in their rate liability.

6. As you are aware, the Valuation Office Agency is finalising the preparation of the draft rating lists, which will be published on 1 October.

### **Transitional Arrangements**

7. The Local Government Act 2003 provides that the 2005 revaluation must be accompanied by a transition scheme to lessen the effects of sudden and significant rises in rates bills. The legislation provides that the scheme must be self-financing. We have announced our proposal for a four-year transitional scheme. The costs of phasing in increases will be met by phasing down the reductions in liability of others.

8. The scheme seeks to provide an appropriate balance between protecting those who experience larger increases in rates bills and allowing those who enjoy a fall in bills to experience the full benefit as quickly as possible. As a result we propose the caps for properties experiencing increases will be 12.5%, 17.5%, 20% and 25% for the four years and for small properties 5%, 7.5%, 10% and 20%. For large properties, reductions in rate bills would be capped at the rates of 7%, 10%, 17.5% and 20%. For small properties, the rates proposed are 17.5%, 25%, 45% and 50%. These downward caps are significantly more generous than in any previous transitional scheme and mean that those liable to decreases in their rates bills will benefit more quickly than under earlier schemes. Also, the effect of the separate capping levels means that small businesses will only be required to make a very small contribution to the scheme.

9. Further details of the transitional scheme will be included in a consultation paper to be published shortly. The consultation will continue until October, by which time businesses will know their proposed rateable value from the Valuation Office Agency draft rating lists. This will enable ratepayers to consider the effect of the proposed scheme alongside their proposed new rateable values before responding to the consultation.

### **Small Business Rates Relief**

10. The Government recognises that the current system of business rates places a disproportionate burden on small businesses. The Government believes the small business rates relief scheme will address this.

11. Plans for a small business rates relief scheme were first announced in 2001 in the White Paper *Strong Local Leadership - Quality Public Services*. The White Paper proposed that rate relief should be available at 50% for properties with a rateable value up to £3,000 with relief declining in percentage terms on a sliding scale until at £8,000 there would be no entitlement to relief. However, we undertook to review these thresholds

before the scheme was implemented. The scheme that we will be consulting on next month is significantly more generous than the one originally envisaged, and proposes that the thresholds should be set at £5,000 and £10,000. The Government are also introducing a buffer zone so that business properties with rateable values between £10,000 and £15,000 will not have to contribute towards the relief.

12. The scheme will be funded through a supplement on the rates bills of larger businesses, in line with the requirement in the Local Government Act 2003, although we have made a commitment that this should not add more than 2.5% to bills. The proposed scheme would increase the overall supplement to no more than 0.67p. This equates to a 1.6% increase in rate bills. We estimate that more than 400,000 small businesses stand to benefit from the proposed scheme.

13. It is unlikely that the relevant regulations for Small Business Rate Relief will be in place by early October when ratepayers are likely to start applying. We suggest that local authorities log applications in anticipation of the relevant regulations being in place soon afterwards. Once the regulations are in force you can formally acknowledge the application or ask the ratepayer to confirm the information more formally. The consultation document will contain the information that is required for a ratepayer to register their application.

### **The Balance of Funding Review Report and Government announcement of an independent inquiry**

14. The Balance of Funding Review report was published on 20 July 2004. The aim of the Review was to consider the balance between the money councils can raise themselves and the money they receive from central government, to review the evidence and consider reform options, setting out the pros and cons. This is a report to Government, not by Government. It concluded that council tax should be retained but reformed; and that there were strong arguments for shifting the balance of funding towards more local funding, but only if methods for doing this were both feasible and desirable.

15. The Government has today announced an independent inquiry into local government funding that will examine how to make the council tax system fairer and more sustainable. The inquiry's work will be informed by the Balance of Funding review report. The inquiry will be led by Sir Michael Lyons who will report to the Deputy Prime Minister and the Chancellor of the Exchequer by the end of 2005.

16. The report can be found at the following link:  
<http://www.local.odpm.gov.uk/finance/balance/report.pdf>

17. The Government's announcement can be found at the following link:  
[http://www.odpm.gov.uk/pns/DisplayPN.cgi?pn\\_id=2004\\_0172](http://www.odpm.gov.uk/pns/DisplayPN.cgi?pn_id=2004_0172)

Yours faithfully,

**Edward Stanislas**