

## **Transitional Protection Payments in 2020-21 and Beyond; forecasts using current hereditament data**

### **Introduction**

Under the current business rates retention system, “transitional protection payments” (TPPs) strip-out, as far as possible, the impact of the transitional arrangements put in place following revaluation.

We considered issues around TPPs in the previous IWG paper from June 2018; *Transitional Protection Payments in 2020-21 and Beyond IWG (18-6)2-02*<sup>1</sup>. That paper reviewed how TPPs work under the current 50% scheme; considered how they might impact local authorities’ income following a 2020-21 re-set of the system; and discussed the practicalities of changing the current arrangements.

This paper uses hereditament revaluation data for three local authorities in 2018 to show the real world impact of the transitional arrangements and TPPs.

***IWG is invited to consider these real world effects and discuss whether they are significant and what they imply for future transitional arrangements.***

### **Background**

1. The IWG paper from June 2018; Transitional Protection Payments in 2020-21 and Beyond; IWG (18-6)2-02 reviewed how TPP currently works.
2. The paper noted a complication with the transitional arrangements. When working out the cost of, or gain from the transitional arrangements, authorities are required to make the calculation before applying mandatory, or discretionary reliefs. A consequence of this is that TPPs do not perfectly strip out the net gain, or loss incurred as a result of the transitional arrangements. The following example illustrates this;

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<sup>1</sup> <https://www.local.gov.uk/sites/default/files/documents/IWG%20%2818-06%29%202-02%20Transitional%20Protection%20Payments%20in%202020-21%20and%20Beyond.pdf>

	With no trans ar.	Upward with tr. ar	Downward with tr. ar
Rateable value	1000	1000	1000
Gross rates payable (0.5 mp)	500	500	500
Transitional arrangements		-100	+100
Gross rates payable after trans. arr.	500	400	600
Reliefs (@80%)	-400	-320	-480
Net rates payable	100	80	120
TPP		100	-100
NNDR income	100	180	20

3. The second column in the table is for the counterfactual case where there are no transitional arrangements in place after a revaluation. The third column shows the case for a revaluation upwards and the fourth column shows the case for a revaluation downwards – both cases are with transitional arrangements in place.
4. In these cases reliefs interact with the transitional arrangements and TPPs so that the net gain or loss is not perfectly stripped out.

### **Some real world data**

5. The figures at Annex 1 show the effect of actual upward and downward revaluations under the transitional arrangements and after TPPs for three local authorities in 2018. This is post the revaluation exercise of 2017.
6. For local authority 1, 1218 hereditaments were re-valued upwards. This caused the NNDR income for these hereditaments to rise by 7.1% to £3,649k as compared to a “no transitional arrangements in place” counterfactual. For this local authority 82 hereditaments were re-valued downwards which led to a 0.6% fall in NNDR income for the year to £5,264k compared to the

counterfactual case. Taking all hereditaments as a whole including those which were not subject to the transitional arrangements (i.e. either not covered by the arrangements or not subject to revaluation) the NNDR income was £33,356k. This was 0.6% higher than the counterfactual (i.e. the no transitional arrangements case).

7. For local authority 1 overall, the net change in NNDR income compared to the counterfactual was therefore +0.6%
8. For local authority 2 overall the net change was +0.4% and the for local authority 3 the net change was +1.3%
9. There are certain caveats to these results;
  - i. This is one year's figures immediately after a revaluation. The scale of the impact would be expected to diminish in subsequent years as the number of ratepayers in transition reduces and the chargeable amount determined by the transitional arrangements reverts to the "true" net rates payable.
  - ii. The sample is very small – we only looked at data from three local authorities - so it is difficult to know how representative they are of the likely income changes of all local authorities.
  - iii. These figures on income change only relate to the first year post the 2017 revaluation and the individual transitional arrangements in place which are specific to that revaluation. We don't know whether the transitional arrangements put in place for the 2020-21 revaluation would lead to similar income effects

### **Issues for the IWG to discuss**

10. Taking note of the caveats to these results – does the group consider these income changes to be significant? If so, then what can be done to deal with these income changes?
11. Does the group agree that income changes will reduce in subsequent years?
12. What does the group see as the implications for these transitional arrangements and TPPs in 2020-21 and beyond?