

TERMS OF REFERENCE FOR THE APRIL 2007 REVIEW OF THE PHASED REMOVAL OF INDUSTRIAL DERATING

The economic rationale for the introduction of industrial derating in the United Kingdom in 1929 was twofold. The first objective was to improve international competitiveness and secondly to alleviate, what was judged to be, the disproportionate impact of rating on industrial premises compared to other sectors.

Present Government policy is to phase out the industrial derating subsidy from April 2005 with full rates on industrial property due in April 2011.

Broad approach

The core components of the review should include not only reviewing the rationale for derating and the existing evidence but also modelling the effects on the economy of removing derating (a 'macro' approach); then supplementing this with a detailed sample survey of firms to obtain indications of how firms will react to the phased removal of industrial derating (a 'micro' approach).

The terms of reference of the review are to:

- establish if the rationale for reintroducing rates to the manufacturing sector stills holds and if the economic circumstances in which that decision was made has changed;
- Identify the key indicators and evidence available for assessing the options of retaining derating or continuing with its phased

removal. As the policy is fairly young it may be necessary to make projections of the longer term effects of the policy options;

- Analyse the costs and benefits to firms, the economy and society of the options of either retaining derating or continuing with its phased removal, drawing together the available evidence in a cost-benefit type framework;
- Consider whether the policy is providing value for money and provides a sustainable funding source. Calculate revenue raised against target, with updated projections for future years;
- Consider the budget consequences of any change in policy and consider alternative sources of revenue that would be necessary to make up the funding deficit (including raising the additional revenue from other ratepayers) or identify corresponding spending cuts;
- Assess the State Aid implications of any change in policy.