

Explanatory Memorandum to The Non-Domestic Rating (Chargeable Amounts) (Wales) Regulations 2025

This Explanatory Memorandum has been prepared by the Non-Domestic Rates Policy and Reform Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of The Non-Domestic Rating (Chargeable Amounts) (Wales) Regulations 2025. I am satisfied that the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language
9 December 2025

PART 1: EXPLANATORY MEMORANDUM

1. Description

- 1.1 The Non-Domestic Rating (Chargeable Amounts) (Wales) Regulations 2025 (“the Regulations”) provide for transitional relief to assist ratepayers affected by the 2026 non-domestic rating revaluation.
- 1.2 The Regulations prescribe rules to be used to calculate the chargeable amount for eligible hereditaments with increased non-domestic rates liability of more than £300, as a result of the revaluation. The Regulations operate by reducing the liability of eligible ratepayers, allowing their increases following the revaluation to be phased in over a two-year period.

2. Matters of special interest to the Legislation, Justice and Constitution Committee

- 2.1 None.

3. Legislative background

- 3.1 The Regulations are made under sections 58 and 143A(2)(b) of the Local Government Finance Act 1988 (“the 1988 Act”). Section 58 enables the Welsh Ministers to prescribe rules to govern the chargeable amount for particular properties. Section 143A(2)(b) enables the Welsh Ministers to exercise their regulation making powers differently in relation to different cases or descriptions of cases.
- 3.2 Section 58(8) of the 1988 Act provides that regulations made under section 58 must come into force before 1 January immediately preceding the financial year to which they are to apply. To have effect in relation to the 2026-27 financial year, the Regulations must come into force before 1 January 2026.
- 3.3 The Regulations are subject to the draft affirmative procedure.

4. Purpose and intended effect of the legislation

- 4.1 The Regulations will assist eligible ratepayers whose non-domestic rates liability is increased by more than £300, following the compilation of the new non-domestic rating list on 1 April 2026. Eligible ratepayers will be entitled to a phased reduction in the resulting increase in their liability over a two-year period (67% reduction in 2026-27, and 34% in 2027-28).
- 4.2 Transitional relief may apply to defined hereditaments (units of property with a non-domestic rating assessment). Regulation 3 specifies that a defined hereditament must have been shown on a local or central rating list on 31 March 2026 (the day before the new lists compiled on 1 April 2026 have effect), the relevant day and each day in between. This means that transitional relief will cease to apply to any hereditament which is removed from a rating

list on or after 1 April 2026 and will not apply to new hereditaments (including where they arise from a split or merge of previously listed hereditaments).

- 4.3 Regulations 4 and 5 specify preliminary calculations which are required to establish the eligibility and entitlement for transitional relief. It is necessary to determine the liability for a defined hereditament on the day before and the day on which new rating lists are compiled (31 March and 1 April 2026).
- 4.4 The base liability (BL) for a defined hereditament is the annualised liability calculated based on the chargeable amount for 31 March 2026. The calculation of BL is made in accordance with section 43 (for occupied local list hereditaments) or section 54 (for central list hereditaments) of the 1988 Act, to take account of any statutory reliefs which may apply. There is no calculation for BL based on section 45 of the 1988 Act (for unoccupied local list hereditaments), as hereditaments which are unoccupied on 31 March 2026 are not eligible for transitional relief.
- 4.5 The notional chargeable amount (NCA) for a defined hereditament is the annualised liability calculated based on the chargeable amount for 1 April 2026. The calculation of NCA is made in accordance with section 43, section 45 or section 54 of the 1988 Act, as appropriate, to take account of any statutory reliefs which may apply. Section 45 of the 1988 Act is relevant to the calculation of the NCA, as a hereditament which is unoccupied on or after 1 April 2026 may be eligible for transitional relief, provided it was occupied on 31 March 2026.
- 4.6 The NCA is set based on the parameters which apply on 1 April 2026. This is used to determine the amount of transitional relief which will apply in each year. The NCA is not recalculated on 1 April 2027. This will ensure that the ratepayer will be required to meet the costs of any increase in the multiplier in 2027-28. The relief entitlement calculated as at 1 April 2026 is deducted from the chargeable amount for the relevant day.
- 4.7 The NCA will only be recalculated if there is a decrease in the chargeable amount (calculated in accordance with section 43, section 45, or section 54 of the 1988 Act) for a hereditament during the transitional relief period. This could occur, for example, as a consequence of a successful proposal or appeal to reduce the rateable value of the hereditament. In such a case, the NCA will be recalculated using the new chargeable amount from the effective date of the change.
- 4.8 Regulation 6 specifies the conditions which must be met in order for a defined hereditament to be eligible for transitional relief. The hereditament must:
- have an increase in liability (NCA > BL) of more than £300;
 - have the same ratepayer on the relevant day as was the ratepayer on 31 March 2026 (if a different person becomes the ratepayer, the relief ceases to apply);

- have been occupied (by the same ratepayer referred to above) on 31 March 2026; and
- not be subject to an apportionment under section 44A of the 1988 Act (for partially occupied properties).

4.9 Regulations 7 to 12 set out the rules for calculating the chargeable amount to account for the transitional relief entitlement for a defined hereditament. The chargeable amount for the relevant day is the amount calculated in accordance with section 43, section 45 or section 54 of the 1988 Act, as appropriate, reduced by the transitional relief entitlement for each day of the relevant financial year (whichever of regulations 10 to 12 applies). If applying the reduction in the chargeable amount would result in a negative figure, then the chargeable amount will be zero.

4.10 Regulation 10 provides the calculation for the reduction to the chargeable amount for each relevant day during the financial year beginning with 1 April 2026. The daily chargeable amount is reduced by 67% of the increase in liability which would otherwise occur from 31 March to 1 April 2026 (NCA minus BL). This means that an eligible ratepayer will pay one third (33%) of their increase in liability in the first year following the compilation of the new rating list.

4.11 Regulation 11 provides the calculation for the reduction to the chargeable amount for each relevant day during the financial year beginning with 1 April 2027. The daily chargeable amount is reduced by 34% of the increase in liability which would otherwise occur from 31 March to 1 April 2026 (NCA minus BL). This means that an eligible ratepayer will pay two thirds (66%) of their increase in liability in the second year following the compilation of the new rating list.

4.12 Regulation 12 provides that, for the financial year beginning with 1 April 2028, the chargeable amount is reduced by zero through transitional relief, although other reliefs may continue to apply.

4.13 The Regulations revoke the Non-Domestic Rating (Chargeable Amounts) (Wales) Regulations 2022 which will not be required from 1 April 2026, as the relevant rating list will be closed.

5. Consultation

5.1 The Welsh Government's financial position for 2026-27 was not confirmed prior to the UK Government's Autumn Statement on 26 November 2025. To have effect from 1 April 2026, the Regulations must be in force before 1 January 2026. As a consequence of these timing constraints, the Regulations have not been the subject of a consultation. The Regulations benefit ratepayers and are based on those developed to provide transitional relief following the 2023 revaluation. As such, the Welsh Government is confident they will achieve the policy intent.

PART 2: REGULATORY IMPACT ASSESSMENT

6. Options

6.1 This Regulatory Impact Assessment (RIA) presents three options in relation to the provision of transitional relief following the 2026 non-domestic rates revaluation. The options considered are as follows:

- Option 1 – Do nothing;
- Option 2 – Provide transitional relief to eligible small properties (with rateable values below a specified level prior to the revaluation); and
- Option 3 – Provide transitional relief to all eligible properties (make the Regulations).

7. Costs and benefits

Option 1 – Do nothing

7.1 Option 1 would not require legislation. No transitional relief would be provided and any ratepayer with an increase in their non-domestic rates liability following the revaluation would have to pay their full liability (subject to any existing reliefs) from 1 April 2026.

Costs

7.2 This is the baseline option and, as such, there would be no additional costs for the Welsh Government or local authorities. Ratepayers would immediately be required to pay any increase in liability following the revaluation in full.

Benefits

7.3 If no transitional relief were provided, existing procedures would be retained, avoiding any new administrative burdens. There would be no amendments required to local authorities' software systems and no associated administrative costs from applying transitional relief to the bills of eligible ratepayers.

7.4 Not providing transitional relief would ensure the non-domestic rates system remains relatively simple, meaning that ratepayers are able to calculate their liability easily from year to year. There would also be no dilution of the principle of regular revaluations, which are intended to ensure non-domestic rates liabilities accurately reflect the fluctuation in rental values in the property market and to redistribute rates paid accordingly.

Disadvantages

7.5 This option would not support the Welsh Government's policy aim of supporting ratepayers whose non-domestic rates liability will increase as a consequence of the revaluation.

Option 2 – Provide transitional relief to eligible small properties

7.6 Option 2 would be to make Regulations to provide transitional relief targeted at small businesses affected by the revaluation. This transitional relief would provide eligible ratepayers who occupied a hereditament which had a rateable value prior to revaluation below a specified amount (e.g. £20,000) and whose liability increased by more than £300, following the revaluation, with a phased increase in their liability over a two-year period.

Costs

7.7 This option would support a large number of ratepayers for smaller properties. For example, an estimated **17,000 properties** would be eligible for relief targeted using a rateable value threshold of £20,000, at a cost to the Welsh Government of £12m in 2026-27 and £6m in 2027-28. Relief would be automatically applied to eligible ratepayers' bills.

7.8 Transitional relief can be complex for local authorities to administer and may require costly software changes. Providing relief based on the general approach taken following previous revaluations should help to minimise the administrative burden and cost for local authorities. The Welsh Government will provide an additional £15,000 to each local authority, totalling £330,000, to cover administrative costs associated with the implementation of new policy changes to support ratepayers in 2026-27.

7.9 The additional costs for ratepayers associated with Option 1 would be reduced for eligible ratepayers. Those who are not eligible would be required to pay their full liability increase following revaluation from 1 April 2026.

Benefits

7.10 The non-domestic rates tax-base in Wales is heavily skewed towards properties with low rateable values. For example, over 70% of properties with an increase in liability of more than £300 had a rateable value prior to revaluation of up to £20,000. This option, with a rateable value threshold set at that level, would provide transitional relief to all of those ratepayers.

7.11 As non-domestic rates can represent a higher proportion of overheads for smaller businesses and these businesses may also have less opportunity to adapt to an increase in costs in the shorter term (for example by increasing prices or reducing production costs), it is possible that small businesses may be affected by an increase in their bills to a greater relative degree than larger businesses, although this will depend on the nature of the business. As such, targeting a transitional relief scheme which is to be fully funded by the Welsh Government at small businesses may represent an effective use of finite financial resources.

Disadvantages

- 7.12 Targeting transitional relief based on rateable value means that any ratepayer occupying a larger (by value) property would not benefit. As rateable values relate to the property rather than the size of the business, some small businesses might not benefit from transitional relief. In contrast, businesses which may not be considered small based on their turnover or profit may benefit where they operate from an eligible property.
- 7.13 Transitional relief can be complex for local authorities to administer and for ratepayers to understand and estimate their liability. During any transitional period, some properties with similar valuations may pay different rates bills.
- 7.14 Transitional relief would be funded by the Welsh Government. This means that funding allocated to it will not be available to support other Welsh Government priorities. It could also raise stakeholder expectations that the provision of transitional relief will be a recurring feature of the non-domestic rates system following the move to three-yearly revaluations.

Option 3 – Provide transitional relief to all eligible properties (make the Regulations)

- 7.15 Option 3 would be to make the Regulations to provide transitional relief to all eligible ratepayers with an increase in liability of more than £300, following revaluation. This option would set no upper limit on eligibility for transitional relief. Increased liability would be phased in over two years, as described for Option 2.

Costs

- 7.16 This option would support an estimated **25,000 properties**, at a cost to the Welsh Government of £77m in 2026-27 and £39m in 2027-28. Relief would be automatically applied to eligible ratepayers' bills.
- 7.17 Transitional relief can be complex for local authorities to administer and may require costly software changes. Providing relief based on the general approach taken following previous revaluations should help to minimise the administrative burden and cost for local authorities. The Welsh Government will provide an additional £15,000 to each local authority, totalling £330,000, to cover administrative costs associated with the implementation of new policy changes to support ratepayers in 2026-27.
- 7.18 The additional costs for ratepayers associated with Option 1 would be reduced for all ratepayers with an increased liability of more than £300.

Benefits

- 7.19 This option would support all eligible ratepayers with increased liability of more than £300. It would be much more generous than Option 2 and align with the relief provided following the 2023 revaluation.

7.20 Many ratepayers for medium and large properties may have difficulty paying their full increase in liability in the first year following revaluation. Some of these ratepayers may also see the largest increases in liability. This option would ensure all parts of the tax-base are supported in a straightforward and consistent manner.

Disadvantages

7.21 Providing transitional relief on a broader basis would be more costly than Options 1 and 2. Some very profitable businesses, which may be able to easily absorb their full liability increases, would benefit from relief which they do not necessarily need.

7.22 Transitional relief can be complex for local authorities to administer and for ratepayers to understand and estimate their liability. During any transitional period, some properties with similar valuations may pay different rates bills.

7.23 Transitional relief would be funded by the Welsh Government. This means that funding allocated to it would not be available to support other Welsh Government priorities. It could also raise stakeholder expectations that the provision of transitional relief will be a recurring feature of the non-domestic rates system following the move to three-yearly revaluations.

8. Options summary

8.1 Doing nothing would not provide transitional relief to any ratepayers in Wales whose non-domestic rates liability is increased as a consequence of the revaluation taking effect on 1 April 2026. Option 1 is, therefore, not the preferred approach.

8.2 On balance, Option 3 is the preferred approach. This takes account of the eligibility for transitional relief announced by the UK Government for England and makes use of the related consequential funding for Wales. The Regulations provide for the approach announced by the Welsh Government on 3 December 2025.

9. Duties

- 9.1 ***Well-being of Future Generations (Wales) Act 2015***. Providing transitional relief will assist eligible ratepayers affected by an increase in their non-domestic rates liability following the revaluation, supporting businesses and the economy in Wales. This will contribute to the wellbeing objective of a prosperous Wales.
- 9.2 ***UNCRC***. No particular impact on the rights of children has been identified.
- 9.3 ***Welsh language***. No direct effect on the opportunities to use the Welsh language or the equal treatment of the language has been identified in connection with this legislation.
- 9.4 ***Equalities***. No specific impacts, positive or negative, on persons who share a protected characteristic (as determined by the Equality Act 2010) have been identified.
- 9.5 ***Voluntary sector***. No particular impact on the voluntary sector has been identified.

10. Competition assessment

- 10.1 A competition filter test has been applied to the Regulations and the risk of a significant detrimental impact on competition is considered to be low.