

Technical note: Estimating the poundage supplement needed to meet the cost of the Small Business Rate Relief scheme – 2006-07

Introduction

1. This note describes how it has been estimated that a **0.4p** supplement on the rate poundage of non-domestic subjects with a rateable value over £29,000 is required to meet the additional costs of the small business rate relief scheme in 2006-07. The methodology was explained in the Technical Note to the 2003-04 supplement (which can be found at <http://www.scotland.gov.uk/consultations/enterprise/poundagesupp.pdf>), and only revised figures are included here.

2. The total net costs to be met by the supplement have been estimated for 2006-07 using data taken from the Scottish Assessors Association Portal representing the Valuation Roll at the start of October 2005. In addition, previous data on the level of reliefs and take-up of Small Business Rate Relief have also been used.

The cost of the scheme in 2006-07

3. The revised estimate of the total gross cost of the small business rate relief scheme in 2006-07 is **£27.9 million**.

4. As at 1 October 2005, the total rateable value of properties with a individual rateable value of £11,500 or less is estimated to be £544.4 million. Of this total, an estimated £96.4 million will be subject to mandatory relief. Properties with a rateable value of between £8,000 and £11,500 will account for a further £150.3 million. These subjects, with a total rateable value of (£96.4 million + £150.3 million) = £246.7 million, will receive a relief of 5%, with a gross cost of £246.7 million * 5% * 44.9p = £5.5 million.

5. For properties with a rateable value of less than £8,000, a proportion will be eligible for higher level relief of 10% or more. Provisional data submitted to the Scottish Executive by Local Authorities has been used to estimate this proportion in each valuation band, and is summarised in the table below, giving a gross cost of relief of £18.3 million. Please note that for clarity the figures presented in this table have been rounded.

	Rateable value excluding mandatory reliefs and vacant properties	Effective RV of subjects in receipt of higher level relief as % of all subjects	Estimated effective rateable value of businesses in receipt of higher level relief.	Relief %	Estimated gross cost of SBRRS - 2003-04
	£m	%	£m	%	£m
0 < rateable value < 3500	92.8	44	41.0	50	9.2
3500 <= rateable value < 4500	44.7	45	20.2	40	3.6
4500 <= rateable value < 5750	61.4	40	24.3	30	3.3
5750 <= rateable value < 7000	55.5	34	18.7	20	1.7
7000 <= rateable value < 8000	43.3	28	12.0	10	0.5
Total for subjects with RV<£8,000	297.8		116.1		18.3

6. The properties with a rateable value of less than £8,000 which do not qualify for higher level relief will still receive basic level Small Business Rate Relief at 5%. This will cost an additional $(£297.8 \text{ million} - £116.1 \text{ million}) * 5\% * 44.9\text{p} = £4.1 \text{ million}$.

7. These three components of cost can thus be added together, **giving a gross cost of £27.9 million** for the scheme (£5.5m + £18.3m + £4.1m).

8. The revised cost of the scheme to be paid by business is calculated as **£16.1 million**. This is £11.9 million less than the total gross cost of the scheme but it ensures that big business does not pay for something currently met by central government. It is £27.9 million less:

- the equivalent of the previous 2p discount for all qualifying subjects with a rateable value of £11,500 or under (£10.9 million).
- the cost of increasing the basic relief for small properties occupied by businesses with a cumulative rateable value of more than £11,500, or for those in receipt of mandatory or discretionary relief, from a 2p discount to a 5% relief (£1.0 million).

9. The effective rateable value of subjects with a rateable value over £29,000 is estimated to be £3,968m at 1 October 2005.

10. The required supplement is therefore $£16.1\text{m} / £3,968\text{m} = \mathbf{0.4\text{p}}$ (to the nearest 0.1p).

11. If you have any queries regarding this note then please contact Local Government Finance Statistics on 0131-244-7033 or by email to lgfstats@scotland.gsi.gov.uk.

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