



SCOTTISH EXECUTIVE

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Dear Sir / Madam

CALCULATION OF SUPPLEMENT FOR SMALL BUSINESS RATE RELIEF SCHEME

The Minister for Finance and Public Services, Andy Kerr, recently announced that the supplement on the poundage for those non-domestic subjects with a rateable value above £25,000 would be 0.6 p in 2003/04.

A note describing how this figure was calculated is attached.

If you have any questions please e-mail me at above address. Alternatively you can contact the Local Government Finance Statistician, David Signorini on 0131 244 7021.

Yours faithfully

Ann Thomson
Local Taxation Branch Head

Technical note: Estimating the poundage supplement needed to meet the cost of the Small Business Rate Relief scheme – 2003/04

REVISED 12 February 2003

Introduction

1. This note describes the methodology used to estimate that a **0.6p** supplement on the rate poundage of non-domestic subjects with a rateable value over £25,000 is required to meet the additional costs of the small business rate relief scheme in 2003/04. The scheme is set out in the Annexe.

Summary

The cost of the scheme

2. The total cost of the small business rate relief scheme is estimated to be **£33.8 million**. This is significantly less than the estimate of £59 million quoted in the consultation paper (issued in Feb 2001). The reason is that the final scheme is better targeted at those most in need – those with a cumulative rateable value of £10,000 or under and those not already in receipt of one of the existing non-discretionary rate reliefs¹ will receive a higher level of relief.

The supplement

3. The cost of the scheme to be paid by business is calculated as **£19.4 million**. This is £14.4 million less than the total cost of the scheme but it ensures that big business does not pay for something currently met by either central or local government. It is £33.8 million less:

- the equivalent of the existing 2p discount for all qualifying subjects with a rateable value of £10,000 or under (£9.5 million)
- the cost of increasing the basic relief for small properties occupied by businesses with a cumulative rateable value of more than £10,000, or for those in receipt of mandatory relief, from a 2p discount to a 5% relief (£0.9 million)
- the cost of discretionary rate relief already being provided (£4 million)

4. The effective rateable value of subjects with a rateable value over £25,000 is £3,226m.

5. The required supplement is £19.4m/ £3,226m = **0.6p**.

¹ Charitable rate relief, disabled persons rate rebate, farm diversification rate relief, rural rate relief, derating allowance (stud farms) and relief by virtue of being empty

Methodology outline

6. Calculating these figures involves three main steps:
- Estimating the cost of the scheme to be paid by subjects with rateable value over £25,000
 - Estimating the effective¹ total rateable value of subjects with a rateable value over £25,000.
 - Calculating the poundage supplement by dividing cost by effective rateable value

Estimating the cost to be paid by subjects with rateable value over £25,000

The gross cost of the scheme

7. The Assessors provided subject level information, including details of the occupier. From this, a random sample of 20,000 subjects (14 per cent of all subjects with a rateable value of £10,000 or less) in each of the value bands was taken. This sample was coded by Scottish Executive statistical staff as to whether it was:

- a local business with only one entry on the valuation roll; or
- a local business with more than one entry on the roll but with a combined rateable value of £10,000 or under; or
- part of a larger business or public sector body.

8. The first two categories of business will qualify for Small Business Rate Relief at the higher levels of 10% or more, if the total rateable value of all subjects occupied by the business is less than £7,000. All other properties will qualify for Small Business Rate Relief at the basic level of 5%, in addition to any mandatory or discretionary reliefs received.

9. Aggregate level information, supplied by local authority revenue departments gave the total number of subjects and the total rateable value in each rateable value band. This included the rateable value of subjects in receipt of mandatory rate relief or receiving relief by virtue of the property being empty. The rateable value of subjects in receipt of discretionary rate relief was also received

10. For properties with a rateable value of less than £7,000, a proportion will be eligible for higher level relief of 10% or more. This proportion was estimated as described in paragraph 7 above, and is summarised in the table below.

¹ The effective rateable value is the total rateable value adjusted for the reduction in income from mandatory or discretionary reliefs currently received by subjects with a rateable value over £25,000. This is described in more detail in the section – The effective rateable value of subjects with a rateable value over £25,000.

Estimated gross cost of higher level small business rates relief scheme.

	Rateable value excluding non discretionary reliefs	Effective RV of subjects eligible for higher level relief as % of all subjects	Estimated effective rateable value of businesses eligible for higher level relief.	Relief %	Estimated gross cost of SBRRS - 2003-04
	£m	%	£m	%	£m
0 < rateable value < 3000	76.6	66	50.6	50	12.1
3000 <= rateable value < 4000	44.5	69	30.6	40	5.8
4000 <= rateable value < 5000	46.3	67	31.2	30	4.5
5000 <= rateable value < 6000	47.4	62	29.2	20	2.8
6000 <= rateable value < 7000	44.5	63	28.0	10	1.3
Total for subjects with RV<=£7,000	259.3		169.6		26.5

11. The total rateable value of properties with a rateable value of £10,000 or less is £473.2 million. Those properties which do not qualify for higher level relief will still receive basic level Small Business Rate Relief at 5%. This will cost an additional $(£473.2m - 169.6m) * 47.8p * 5\% = £7.3m$.

12. These two components of cost can thus be added together, **giving a gross cost of £33.8m** for the scheme (£26.5m + £7.3m).

The net cost of the scheme

13. All subjects with a rateable value of £10,000 or less currently receive a reduction of 2p on the rate poundage. These businesses therefore currently receive $£473.2m * 2p = £9.5m$. This sum is deducted from the gross cost to ensure that those with a rateable value above £25,000 are not paying for something currently met by central government.

14. The cost of increasing the discount from 2p to 5% (2.4p) for subjects which are part of a larger business or public sector body, or are in receipt of mandatory relief, is £0.9m. This cost will be met centrally.

15. The gross cost also includes subjects currently receiving **discretionary rate reliefs**. While it is expected that a part of the cost of these rate reliefs will transfer to the small business rate relief scheme, these costs will not be borne by the supplement. From the aggregate information supplied by revenues departments, the estimated cost of discretionary rate reliefs is £4.0m. This sum is deducted from the gross cost to ensure that those with a rateable value above £25,000 are not paying for this.

16. Thus the **net cost** of the scheme which will be borne by subjects with a rateable value above £25,000 is **estimated at £33.8m – £9.5m – £0.9m – £4.0m = £19.4m**.

The effective rateable value of subjects with a rateable value over £25,000

17. The total rateable value of subjects with a rateable value over £25,000 is £3,543m. After mandatory rate relief, relief by virtue of the property being empty and an estimate for discretionary rate reliefs is taken off, the effective rateable value of subjects with a rateable value over £25,000 available to meet the costs of the supplement is reduced to £3,226m.

Estimate of poundage supplement required

18. Thus the required supplement is $\text{£}19.4\text{m} / \text{£}3,226\text{m} = 0.6\text{p}$.

Sensitivity of the supplement estimate

19. The main source of uncertainty in the estimate is the extent to which the manual coding carried out by Scottish Executive statistics staff - on the basis of business descriptions and occupier name and address recorded in valuation rolls - gives an accurate assessment of the numbers who are eligible and will apply within each band. However, the estimate of the required supplement is quite robust, and it seems very unlikely that uncertainties in the coding process would lead to a sufficiently large margin of error to lead to an over or underestimate in the required supplement.

The Scottish Executive

Annex: The Small Business Rates Relief Scheme

From 1st April 2003 all non-domestic subjects in Scotland with a rateable value of £10,000 or less are eligible for a discount of between 5% and 50% on the rate poundage².

Rate relief for subjects with a rateable value of £10,000 or less is set out below

Total rateable value of all non-domestic subjects occupied	%
Less than £3,000	50
£3,000 or above but under £4,000	40
£4,000 or above but under £5,000	30
£5,000 or above but under £6,000	20
£6,000 or above but under £7,000	10
£7,000 or above; or eligible for other (non-discretionary) relief ³	5

The exact level of relief therefore depends on

- (i) the total rateable value of all subjects occupied by the rate-payer; and
- (ii) whether or not the property is eligible for one of the existing non-discretionary rate reliefs³.

If a subject is eligible for an existing non-discretionary relief then it already qualifies for at least a 50 per cent rate relief which is why the small business rate relief is limited to 5% in these circumstances.

Since 2001/02 all subjects with a rateable value of £10,000 or less have received a 2 pence discount on the rate poundage. Under this scheme, all such subjects will receive at least a 5 per cent discount.

A leaflet describing the small business rate relief scheme is available on the Scottish Executive website at: <http://www.scotland.gov.uk/library5/finance/sbrs-00.asp>

² The rate poundage in 2003/04 will be 47.8 p

³ Charitable rate relief, disabled persons rate rebate, farm diversification rate relief, rural rate relief, derating allowance (stud farms) and relief by virtue of being empty