EXECUTIVE NOTE

The Non-Domestic Rates (Levying) (Scotland) Regulations 2007 SSI/2007/216

The above instrument is made in exercise of the powers conferred by section 153 of the Local Government etc. (Scotland) Act 1994 and by all other enabling powers. The instrument is subject to the negative resolution procedure.

Background

Transitional Arrangements

Occupiers of non-domestic subjects in Scotland pay non-domestic rates. Broadly speaking, non-domestic rates are levied on the basis of a national poundage rate multiplied by the rateable value of each non-domestic subject in the valuation roll. Rateable values in Scotland are set by the Scottish Assessors. The rateable value is the Assessor's estimate of the annual rent which that property would command on the open market.

To ensure that rateable values keep pace with changes in the property market all non-domestic subjects are re-valued every five years by the Assessors. The last revaluation took effect on 1 April 2005. The next revaluation takes effect on 1 April 2010. The principal purpose of a revaluation is to ensure that the distribution of the rates burden between ratepayers remains equitable.

The Minister for Finance and Public Service Reform said in a statement to Parliament on 8 December 2004 that transitional arrangements would be put in place at the 2005 Revaluation. The aim of transitional arrangements is to protect ratepayers from sudden sharp increases in their bills in the period immediately following the revaluation. Increases in rates bills of more than 12.5% in real terms will be phased in over a three year period. This transitional protection will be funded by phasing in real term decreases of more than 10% over the same period.

The 2005 Revaluation transitional arrangements affect around 35% of non-domestic subjects with around 22% of non-domestic subjects benefiting from transitional relief over the three year period the scheme will run and around 13% of non domestic subjects contributing to the cost of providing this relief over the same period. The majority of non-domestic subjects (around 65%) will be unaffected by the transitional arrangements.

Small Business Rate Relief Scheme (SBRR)

The Small Business Rate Relief Scheme (SBRR) provides rate relief of up to 50% to businesses who have a rateable value of £11,500 or less. The aim of the SBRR is to redistribute the rates burden and the additional costs of the scheme are paid for by businesses with a rateable value in excess of £29,000. These businesses pay an additional amount on the poundage rate known as the SBRR supplement. This is included within transitional arrangements. The Minister for Finance and Public Service Reform said in a statement to Parliament on 13 December 2006 that the small business rate relief supplement for 2007-08 would be set at 0.3 pence.

Policy Objective

The purpose of this instrument is to make provision for transitional arrangements and the small business rate relief scheme for 2007-08.

Consultation

"*Non Domestic Rates: 2005 Revaluation Transitional Arrangements – A Consultation Paper"* was issued in 2004 to around 100 organisations including business organisations, rating associations, local authorities and rating agents and made available on the Scottish Executive website. Over 90 per cent of respondees indicated they wished transitional arrangements to be put in place at the 2005 Revaluation.

A consultation took place from 18 December 2006 to 2 February 2007. 10 responses were received of which six contained comments of a technical nature on the Order and one was supportive of the proposal. The Order was adjusted to take account of the technical comments.

Financial Effects

The 2005 Revaluation Transitional Arrangements are designed to be self funding. Increases in rates bills will in most cases be capped at 12.5% in real terms and phased in over three years. This transitional protection will be funded in most cases by capping real term decreases in rates bills at 10% and phasing the decreases in over the same period.

Our best estimate of the gross cost of the small business rate relief scheme assuming a full take up is £27.4 million. The Executive will be contributing £11.9 million towards the cost of the scheme to ensure that big business does not pay for something that is currently met by central government. The additional cost of the scheme to be met by occupiers of subjects with a rateable value in excess of £29,000 is £15.5 million. The effective rateable value of subjects with a rateable value over £29,000 is estimated to be £4,098m at October 2006. The required supplement is therefore £11.8 / £4,098 = 0.3 pence**.** A technical note which explains the poundage supplement calculation can be found on the Scottish Executive website at (http://www.scotland.gov.uk/Topics/Government/local-government/17999/SBRRStechnote07-08).

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