

Technical note: Estimating the poundage supplement needed to meet the cost of the Small Business Rate Relief scheme – 2004/05

Introduction

1. This note describes how it has been estimated that a **0.3p** 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 2004/05. 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 the revised figures are included here.

2. The total net costs to be met by the supplement have been re-estimated for both 2003/04 and 2004/05. For both years, the revised estimate of the supplement necessary to cover the costs of the scheme is 0.45p. The figure for the 2004/05 supplement (0.3p) has therefore been set at the updated level (0.45p) less the additional income generated in 2003/04 (0.15p).

The cost of the scheme in 2003/04

3. The revised estimate of the total gross cost of the small business rate relief scheme in 2003/04 is **£25.5 million**. This is less than the original estimate of £33.8 million quoted in the Technical Note published in February 2003. The main reason for this is that preliminary data from Local Authorities suggest that the initial uptake of higher level (10% or greater) Small Business Rate Relief is lower than originally anticipated.

4. The total rateable value of properties with a individual rateable value of £10,000 or less is £473.2 million. Of this total, £83.6 million is subject to mandatory relief. Properties with a rateable value of between £7,000 and £10,000 account for a further £130.2 million. These subjects, with a total rateable value of (£83.6 million + £130.2 million) = £213.8 million, will receive a relief of 5%, with a gross cost of £213.8 million * 5% * 47.8p = £5.11 million.

5. For properties with a rateable value of less than £7,000, 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 £16.7 million.

6. The properties with a rateable value of less than £7,000 which do not qualify for higher level relief will still receive basic level Small Business Rate Relief at 5%. This will cost an additional (£259.3 million – £104.0 million) * 5% * 47.8p = £3.71 million.

7. These three components of cost can thus be added together, **giving a gross cost of £25.5 million** for the scheme (£5.11m + £16.7m + £3.71m).

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

	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 < 3000	76.6	42	32.2	50	7.7
3000 <= rateable value < 4000	44.5	45	20.0	40	3.8
4000 <= rateable value < 5000	46.3	42	19.6	30	2.8
5000 <= rateable value < 6000	47.4	36	16.9	20	1.6
6000 <= rateable value < 7000	44.5	34	15.2	10	0.7
Total for subjects with RV<=£7,000	259.3		104.0		16.7

8. The revised cost of the scheme to be paid by business is calculated as **£14.8 million**. This is £10.7 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 £25.5 million less:

- the equivalent of the previous 2p discount for all qualifying subjects with a rateable value of £10,000 or under (£9.46 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 or discretionary relief, from a 2p discount to a 5% relief (£1.26 million).

9. The original calculation for 2003/04 assumed that some of the costs of discretionary rate relief currently met by Local Authorities would transfer to the Small Business Rate Relief scheme. Provisional estimates submitted to the Scottish Executive by Local Authorities, however, provides no evidence that this has occurred. The level of discretionary relief is similar to previous years and so the discretionary rate relief element of the net cost calculation has been deleted from the calculations.

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

11. The required supplement is £14.8m / £3,226m = **0.45p** (to the nearest 0.05p).

The cost of the scheme in 2004/05

12. The poundage rate for 2004/05 is 48.8p, a 2.1% increase over 2003/04. It is expected therefore that the costs of the scheme will also rise. Similar calculations to those above for 2004/5 give a gross cost of **£26.0 million** and a net cost to be paid by business of **£15.2 million**. This again implies that the supplement should be £15.2m / £3,226m = **0.45p**.

13. These figures are an estimate only and the Scottish Executive will determine the supplement each year in the light of the best available information on the cost of the scheme. If take-up of the scheme increases then the supplement will increase but it would be expected the cost of the scheme will settle down and become more predictable in due course.

14. If you have any queries regarding this note then please contact Dr David Signorini, Local Government Finance Statistics on 0131-244-7033 or by email to david.signorini@scotland.gsi.gov.uk.

The Scottish Executive
Dec 2003