

Local Government and Public Services Committee

LGPS(2)-12-06(p.2)

Meeting date: Thursday 21 September 2006

Venue: Committee Room 2, Senedd, National Assembly for Wales

Title: Small Business Rate Relief Scheme

Purpose

1. To provide the Committee with an overview of the Welsh Assembly Government's proposals for business rate relief in Wales. The draft Regulations are being published on 14 September for consultation. Committee scrutiny of the draft Regulations is programmed for 23 November.

Recommendations

2. That the committee takes note of the Assembly Government's proposals for a Small Business Rate Relief Scheme.

Background

3. On 30 March I presented a paper (LGPS (2) –06-06 (p4)) which gave the background to the current arrangements for business rate relief in Wales and discussed the results of the consultation into proposals for providing rate relief in the future. You will recall that the need to review the current arrangements stemmed from the fact that the Rural Rate Relief scheme, which was first introduced in 1998, was extended in 2002 to complement the Rural Recovery Plan, which the Assembly Government implemented as consequence of the Foot and Mouth crisis. It was also appropriate to consider the need for a small business rate relief scheme. At the meeting on 30 March we discussed the responses to the consultation which very largely supported the view that the current rate relief for small business in Wales lacked sufficient focus now that the Rural Recovery Plan has been completed. In this context there was strong support for both options 3 and 4. The discussion in Committee centred on whether option 3 – to retain and reform Rural Rate Relief complemented by a Small Business Rate Relief Scheme, or option 4 - to abolish Rural Rate Relief and replace it with a Small Business Rate Relief Scheme, was the best solution for Wales.

Proposals

4. After careful consideration of all of the issues I have concluded that continuation of the Rural Rate Relief scheme in its current form is not the appropriate way forward. The eligibility rules were extended for a particular purpose, and that was to provide additional help during the foot and mouth

crisis to complement the Rural Recovery Plan. The Rural Recovery Plan ended in 2004 and therefore the rationale for providing rural rate relief at current levels is no longer in place.

5. I have concluded that the best way forward is to develop a scheme in accordance with option 4 of the consultation. Therefore, it is my intention to replace the current scheme with an all-Wales Small Business Rate Relief Scheme that will benefit almost 50 per cent of all businesses in Wales (the current rural rate relief scheme only benefits 21 per cent of businesses). Individual local authorities keep information on the businesses that receive rate relief and as a consequence it is difficult to give precise information to make comparisons between the existing scheme and new proposals. However, Annex 1 attached to this Paper shows, as far as possible, a comparison between businesses eligible for relief under the current proposals and those estimated to be eligible for relief under the new proposals.

6. It has also been important for me to develop proposals that are affordable. The Small Business Rate Relief scheme in England is self-financing in that the business rates paid by medium and larger businesses fund the relief available to small businesses simply by paying a higher rate. In Wales we do not have sufficient numbers of larger businesses to have a self-financing scheme. As a consequence the scheme will be funded by the Welsh Assembly Government and will be delivered within the same cost envelope as currently expended under the existing rural rate relief scheme. It will mean that many of the businesses currently receiving rural rate relief will continue to be eligible under the new scheme but some may not receive as much relief as they currently get under the enhanced rates following foot and mouth. Some may not get relief in the future. However, under this all Wales scheme thousands of small businesses that previously did not qualify will get relief.

7. Under the scheme all businesses with a rateable value up to £4,999 (except for those specifically exempted) will receive rate relief. As part of the scheme it is planned to make special provision to give full relief to Post Offices whose rateable value is under £9,000, and 50% relief to post offices with a rateable value between £9,000 and £11,999. This is particularly important and will mean that Post Offices having relief under the current rural rate relief scheme will continue to benefit under the new arrangements, and that this will be extended to include post offices in urban areas. Outline details of the proposals are at Annex 2 to this paper.

8. It had been my intention to provide additional relief for businesses that were able to achieve a Green Dragon environmental standard – possibly at Level 2. This would have been innovative and would have allowed Wales to give a strong lead in this area and would contribute to our duty on sustainable development. I am disappointed to say that unfortunately, the Assembly Government does not currently have the legislative powers to achieve this objective. This may be something a new Assembly Government will wish to address using Orders in Council under the Government of Wales Act 2006 and I would certainly envisage that urgent attention be given to obtaining the legislative powers to make this a possibility.

Next Steps

9. The majority of respondents asked that any new proposals should be brought into effect at the earliest opportunity and I therefore began consultation on draft regulations on 14 September to

provide the legislative base for the new scheme. A timetable has been set out for progressing the regulations through the Assembly having consulted with the Chair the date for Committee's consideration is 23 November. My objective is that the new arrangements should be effective from 1 April 2007.

Compliance

10. Powers to introduce a Small Business Rate Relief Scheme are in section 61 of the Local Government Act 2003 which makes amendments to section 43 of the Local Government Finance Act 1988. The power to effectively abolish the Rural Rate Relief Scheme through removal of the rural settlement lists is contained in section 63 of the 2003 Act. A separate Commencement Order will be necessary to commence the powers in section 63, which make amendments to section 42A, 43 and 47 of the 1988 Act – such that certain provisions only have effect in relation to England.

Paragraphs 1 and 2(2) of schedule 9 to the 1988 Act provide for the Assembly to make and amend regulations concerning the need for billing authorities to serve demand notices and, amongst other things, their content.

Paragraph 4 of schedule 1 to the 1988 Act permits the Assembly to make regulations containing rules for the calculation of an amount for a chargeable financial year in relation to each billing authority (i. e. concerning the contribution regulations).

Section 47(8) provides that the Assembly may make regulations concerning the notices to be given by billing authorities to ratepayers

Financial Implications

11. The new Small Business Rate Relief Scheme can be managed within the cost envelope of the existing Rural Rate Relief Scheme. Therefore it is not expected to have additional financial implications for the Assembly Government.

Cross Cutting Themes

12. The provision of a rate relief scheme to small businesses in Wales is an essential part of the Assembly Government's social policy, particularly to ensure that businesses are sustainable in deprived communities. By extending rate relief to all parts of Wales means that small businesses in even poorest communities will get help to enable them to stay in business where they are most needed. The provision of full rate relief to Post Offices which are above the standard threshold for Small Business Rate Relief will be a major contribution to the Assembly Government's policy of keeping Post Offices open.

13. A Small Business Rate Relief scheme covering every corner of Wales will make a significant contribution to ensuring businesses can remain viable in all communities. It had been my intention to provide additional relief for businesses that were able to achieve a Green Dragon environmental standard – possibly at Level 2. This would have been innovative and would have allowed the

Assembly Government to give a strong lead in this area. Unfortunately we do not currently have the legislative powers to achieve this objective. This may be something a new Assembly Government will wish to address using Orders in Council under the Government of Wales Act 2006.

Action for Committee

14. At this stage the Committee is invited to note the contents of this paper. As set out above I will bring the draft regulations to Committee on 23 November 2006.

Sue Essex AM

Minister for Local Government and Public Services

Policy Contact: David Fletcher, Local Government Finance Division, tel 029 2082 5013;

Paul Harrison, Local Government Finance Division, tel 029 2082 5307

Annex 1

UA	Businesses with RV Under £5k* 2006	Number Businesses Receiving RRR 2004 – 2005*	Businesses Eligible SBR 2006+	Net change
Anglesey	1,757	1,267	1,712	445
Blaenau Gwent	1,311	29	1,263	1,234
Bridgend	1,491	147	1,435	1,288
Caerphilly	2,408	151	2,270	2,119
Cardiff	3,717	60	2,991	2,931
Carmarthenshire	3,704	2,726	3,480	754
Ceredigion	1,809	1,704	1,737	33
Conwy	2,657	2,164	2,520	356
Denbighshire	2,178	372	2,087	1,715
Flintshire	2,251	1,308	2,166	858
Gwynedd	4,279	4,290	3,980	- 310
Merthyr Tydfil	903	5	850	845
Monmouth	1,309	172	1,255	1,083
Neath	2,062	141	1,971	1,830

Newport	1,869	53	1,691	1,638
Pembrokeshire	3,771	2,128	3,599	1,471
Powys	3,926	2,503	3,774	1,271
Rhondda C T	3,218	13	3,096	3,083
Swansea	2,900	219	2,578	2,359
Torfaen	1,217	87	1,190	1,103
Vale of Glamorgan	1,485	327	1,410	1,083
Wrexham	1,900	1,498	1,817	319
Total Wales	52,122	21,364	48,872	27,508

*These are based on numbers of businesses receiving rural rate relief in 2004 -5 provided by local authorities, and numbers of businesses in Wales, on 31st March 2006 provided by the VOA.

+ Some of the businesses counted as being eligible for the new scheme may be receiving other types of mandatory relief, so may not in fact receive this. Numbers are not available.

Annex 2

Summary of Scheme

It is an all Wales scheme, replacing the current Rural Rate Relief Scheme.

Eligible businesses* with a rateable value of under £2k will receive an automatic 50% discount off their rates, and businesses with a rateable value between £2k and £4,999 will receive a 25% discount. This will be funded by the Assembly.

Post offices with a rateable value of less than £9k will be exempted from paying business rates and post offices with a rateable value between £9k and £11,999k will receive 50% relief. This will be funded by the Assembly.

Where possible the relief will be applied automatically to Post Offices, but in some instances where it is not apparent from the rating list that a business is a post office, an application for relief may be necessary.

* Businesses not eligible to benefit from this scheme include those entitled to other types of mandatory relief, advertising rights (e.g. billboards), beach huts, communication stations (these include mobile phone masts), car parks and car spaces and sewage works.