EXECUTIVE NOTE

The Non-Domestic Rates (Levying) (Scotland) (No. 2) Regulations 2006 S.S.I. 2006/ 158

The above instrument is made in exercise of the powers conferred on the Scottish Ministers 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

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 per cent 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 per cent over the same period.

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

The Minister for Finance and Public Service Reform said in a statement to Parliament on 23 November 2005 that the small business rate relief supplement for 2006-07 would be set at 0.4p.

Policy Objective

The purpose of this instrument is to make provision for the small business rate relief scheme and transitional arrangements for 2006-07.

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 draft of the *Non Domestic Rates (Levying) (Scotland) Regulations 2006* which makes provision for transitional arrangements and the small business rate relief scheme for 2006-07 was issued to over 100 organisations for consultation during January 2006. The draft regulations were then amended to take account of comments made by consultees.

Financial Effects

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

It is estimated that the gross cost of the small business rate relief scheme will be £27.9 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 £16.1 million. The effective rateable value of subjects with a rateable value over £29,000 is estimated to be £3,968m at 1 October 2006. The required supplement is therefore £16.1/£3,968m = 0.4p. 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/SBRRStechnote06-07).

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