

Explanatory Memorandum to the Non-Domestic Rating (Small Business Relief) (Wales) Order 2008

This Explanatory Memorandum has been prepared by Local Government Finance Division and is laid before the National Assembly for Wales in accordance with Standing Order 24.1.

- (i) **Description**
This Order re-enacts the Non-Domestic Rating (Small Business Relief) (Wales) Order 2006 (“the 2006 Order”) with amendments. The 2006 Order provides for a small business rate relief scheme for Wales following the coming into force of section 63 of the Local Government Act 2003.
- (ii) **Matters of special interest to the Subordinate Legislation Committee**
While it is not usual to make legislation retrospective, we consider the fact that the amendment confers a benefit and not a burden is a sufficient justification for the Assembly Government to make this legislation with retrospective effect.
- (iii) **Legislative Background**
Welsh Ministers have powers to introduce and amend a Small Business Rates Scheme under sections 43(4B)(b), 44(9) and 143(1) and (2) of the Local Government Finance Act 1988.
- (iv) **Purpose and intended effect of the legislation**
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 support businesses in deprived communities, and to provide assistance to certain businesses that are important for local communities.

The Order makes provision for non domestic rates relief as follows:

- Increase to £6,500 the current rateable value threshold of £5,000 for most business hereditaments in Wales eligible for 25% rates relief (with the figure of £6,500 reverting to £5,000 in 2012);
- Provide 25% relief to most retail premises (including public houses, restaurants and petrol filling stations) with a rateable value between £6,501 and £9000 until 2012;
- Provide 50% relief for hereditaments wholly occupied by credit unions in Wales with a rateable value of up to £9,000 until 2012;
- Provide 50% relief for heraditaments wholly occupied by child care businesses and day nurseries in Wales with a rateable value up to £12,000 until 2012.

Relief will also continue to be available for the following businesses

- 50 per cent relief for businesses with a rateable value of £2,000 or less;
- 100 per cent relief for post offices (and hereditaments that include post offices) with a rateable value of £9,000 or less; and,
- 50 per cent relief for post offices (and hereditaments that include post offices) with a rateable value between £9,001 and £12,000.

(v) **Implementation**

If this legislation is not made, the Non-Domestic Rating (Small Business Relief) (Wales) Order 2006 will remain in force, and up to 10,000 additional business will not qualify for rates relief.

(vi) **Consultation**

Details of the consultation progress are included in paragraph e of the Regulatory Impact Assessment.

Regulatory Impact Assessment –

(a) **Options (for achieving the policy objective – as set out in paragraph (iv) above) -**

Consideration was given to including an element of relief for shops and other businesses in the more rural Lower Super Output Areas of Wales (LSOA's). These are statistical boundaries designed by the Office for National Statistics (ONS) containing an average population of 1,500. The ONS has classified each LSOA as either being sparsely populated (predominantly rural) or less sparsely populated (predominantly urban). The majority of LSOA's in Wales are classed as being rural. This would have had the advantage that relief would have been based on boundaries created and published by the ONS, but the criteria used to define the boundaries and their urban / rural classification are highly complex; there is little public awareness of LSOA's, and the order would have had to include up to 300 maps to define areas eligible for relief. In some parts of Wales, similar businesses in neighbouring streets could have had to pay different rates.

(b) **Benefits**

The effect of making the Small Business Rate Relief Order will be to increase the number of small businesses that are eligible for rates relief, and to provide additional assistance for small retail establishments, registered child care establishments and credit unions.

Based on data provided by the Valuation Office Agency, up to an estimated 10,000 businesses could potentially benefit from the scheme.

(c) Costs

It is not possible to provide an exact costing of these proposals, as the numbers of businesses eligible for relief vary from year to year, and it is not known how many businesses will qualify for relief. The estimated costings are based on the maximum numbers of businesses in each category that we believe could be eligible for relief based on the rating lists in force in 2007, and on the provisional 2008-2009 non domestic rating multiplier of 0.466. The total cost should not exceed £6.5 million.

There should be no additional costs for local authorities, as the relief is funded by the Assembly Government. There will be additional administrative requirements, particularly in connection with backdating the relief, re – issuing bills and informing businesses of the new scheme. Each local authority will receive a payment of £4,545 towards these costs.

(d) Competition Assessment

This has been scored against the competition filter test which indicated that there should be no detrimental effect on competition.

(e) Consultation

The Assembly Government consulted with local government and the business community on proposals to enhance the rates relief scheme between 8 May and 31 July 2008. The main criticisms were that the proposed enhancements were too limited in scope, and that they complicated what was previously a simple to operate scheme. Some local authorities also requested that the Assembly Government provide funding to help cover the costs of implementing the new system.

The Assembly Government subsequently expanded the scope of the rates relief scheme, by implementing no further relief bands or categories of business to the scheme other than those that are in force or were consulted on, and simply increasing the proposed thresholds both for the 25% relief which is based on rateable value alone, and for the proposed additional relief that is targeted at certain classes of businesses. It also made available funding to help local authorities with the administrative costs of implementing and backdating the scheme.

(f) Post implementation review

The Welsh Assembly Government will review the operation and costs of the scheme on an annual basis. It will compare the audited returns from local authorities of the amount of relief that they have given by October each year to the original estimates.

The operation of the scheme will be discussed at meetings of the Local Taxation Working Group, which is attended by local authority and Assembly Government officials.

