

# EAST AYRSHIRE COUNCIL

## DEVELOPMENT SERVICES COMMITTEE – 24 APRIL 2001

### RATES RELIEF FOR SMALL BUSINESSES – RESPONSE TO CONSULTATION

#### Joint Report by Director of Finance and Director of Development Services

#### 1. PURPOSE OF REPORT

- 1.1 To propose a response to the consultation paper on rates relief for small businesses issued by the Scottish Executive.

#### 2 BACKGROUND

- 2.1 In February 2001 the Scottish Executive issued a Consultation Paper which set out proposals for rates relief for small businesses. Comments on the proposals should be submitted to the Scottish Executive by 18 May 2001.

#### 3 PROPOSALS

##### 3.1 General Rate Relief Scheme for Small Businesses

The Paper notes that rates are a fixed cost and as a result rates tend to account for a larger proportion of the costs and turnover of smaller businesses than they do of larger businesses. The Scottish Executive's aims are to:-

- (a) Implement a permanent small businesses rates relief scheme.
- (b) Ensure that the rates relief scheme applies only to genuinely small businesses.
- (c) Ensure that the scheme reduces the incentive for businesses to appeal against the rateable value and encourages small businesses to grow.
- (d) Allow the scheme to be self financed through an increase in the national non-domestic rates poundage.

The proposals are that a tapered relief scheme is introduced giving 50% relief to properties with rateable values of less than £3,000. The percentage of relief would gradually be reduced for properties with higher rateable values up to and including £8,000. Properties with a rateable value between £8,000 and up to £10,000 would receive a 2p reduction on the poundage and those with a rateable value greater than £10,000 would receive no relief.

There is a suggestion that additional criteria could be used to target relief to small businesses. Examples suggested are that turnover should not exceed £200,000 and/or the business should employ fewer than six people and/or that the business should own only one property. The paper proposes that an annual application for relief should be made by businesses but once granted relief would not be removed in-year regardless of any change in circumstances.

The paper also proposes that some types of property may be excluded from the scheme such as advertising hoardings or telecommunications masts.

It is recognised that certain properties may be eligible for other reliefs and the proposal is that where this is the case the property should receive relief up to whichever level is the higher.

The earliest for introduction of such a scheme would be 1 April 2002.

### **Proposed Response**

**It is considered that relief should be directed towards small businesses rather than small properties. There must be some mechanism therefore to preclude large businesses who occupy small individual properties from benefiting from the scheme when that is clearly not the policy intention. It is necessary therefore that additional criteria need to be applied to target small businesses more closely. In order to achieve this businesses would need to make application for relief and provide additional information to allow the value of relief to be calculated. It is suggested that ratio of turnover to rates payable should be used to calculate the level of relief. For new businesses, business plan projections of turnover would be acceptable. This is currently the mechanism in place within East Ayrshire Council for discretionary relief for rural areas and it seems to work in a satisfactory way. It is agreed that the application should be made on an annual basis and relief should not be removed in-year.**

**With regard to rateable value thresholds it is suggested that the threshold should be £12,000 in line with rural rate relief. In addition rated subjects that have no employees should be excluded from any relief. This would include advertising hoardings, radio masts and bank auto teller machines.**

**It is agreed that where properties are eligible for more than one kind of relief that they should be able to receive relief up to whichever level is the higher.**

### **3.2 Rate for New Farm Diversification Enterprises**

The Paper confirms that the Scottish Executive policy is to encourage farm diversification and rural entrepreneurship. The current rating arrangements however can act as a disincentive to farmers and their families exploring opportunities to diversify into other businesses. Agriculture is currently exempt from non-domestic rates but non-agricultural activities are rateable. Farm businesses incur a rates liability when changing the use of any of their property from agriculture to non-agriculture use. The Paper proposes therefore that rates relief should be allowed for all new non-agricultural activities on farms. This would apply for small properties with a rateable value of £6,000 and less on farms used for new non-agricultural enterprises. This would include such enterprises as farm shops, mail order businesses, storage facilities and so on. The Paper proposes that there should be mandatory 50% rates relief for eligible properties with Local Authorities having discretion to top up relief to 100% of the rates bill.

The relief would only be available to the farmer, his immediate family or the farm business occupying the holding for newly established enterprises. The proposal is to introduce such relief for a fixed five-year period running from the day the legislation comes into force. It is therefore seen as a transitional measure to assist farmers to move into new areas of business.

Under long standing legislation stud farms are already entitled to mandatory relief. In most cases this will be worth more than the relief available under the new proposal. It is proposed therefore that stud farms which currently benefit from this relief should also be eligible for the discretionary element of the relief proposals.

### **Proposed Response**

**It is considered that the introduction of a relief scheme for New Farm Diversification Enterprises would be a useful mechanism to assist farmers to diversify and to make better use of underemployed assets. It seems possible that the current foot and mouth crisis may provide further impetus for farmers to move in that direction. Currently farm buildings exclusively concerned with agricultural activities are omitted from the valuation roll by the assessor and so no rates are levied. It would be the case therefore that on change of use the assessor would include the property on the valuation roll and it would then become eligible for relief subject to the threshold. The £6,000 threshold proposed is reasonable, however it is suggested that the relief should be awarded based on the ratio of turnover to rates in line with the suggestion regarding relief for small businesses. It is considered that there should be no restriction on the type of business which could attract the relief and in order to ensure consistency of treatment stud farms should qualify for the discretionary element of the relief.**

### **3.3 Extension to the Provisions for Rural Rates Relief**

A rural rate relief scheme is currently in operation which provides 50% mandatory relief for any sole general store and/or Post Office in settlements of under 3,000 population in a designated rural area and with a rateable value of less than £6,000. Local Authorities have discretionary powers to top this up to 100% for any other businesses and settlements that they consider important to the community. The discretionary element is for subjects with a maximum rateable of £12,000.

The Paper proposes extending the relief in designated rural settlements of less than 3,000 population to the following premises where the rateable value is less than £6,000:-

- Singly owned Pubs which is the sole public house and also provides an additional community facility such as a meeting room.
- Shops selling mainly food.
- Singly owned garages.
- Automated cash machines.

### **Proposed Response**

**The extension of the rural rates relief scheme to other businesses which provide essential services to rural communities is welcomed. There are however a number of Councils, including East Ayrshire Council, whose current policy on discretionary rural relief excludes properties involved with the sale of alcohol. It is difficult to support a move to provide relief for public houses therefore although it is noted that the policy intention is to assist such businesses who provide additional community facilities. Given that rural**

residents are more dependant upon their cars for travel and garages in these areas may also provide other facilities it is agreed that rates relief is appropriate. In addition the relief available to Post Offices and sole general stores may discourage the establishment of additional small shops and consequently the extension of relief to these may also be helpful.

### **3.4 Farm Buildings Use for Machinery Ring, Contract and Share Farming Enterprises**

The Paper acknowledges the importance of encouraging farmers to provide more services to other farm businesses and to make the most efficient use of the resources available to them. Agricultural property used for such activities as machinery rings, contract farming and share farming where farm businesses pool their resources and provide services to one another to generate cost efficiencies are discriminated against by current rating law. At present agricultural land and buildings are exempt from non-domestic rates on condition that the buildings are used solely in connection with the agricultural operations on the land on which they stand and the building is occupied by the occupiers of the land on which it stands. In the case of machinery rings, contract farming and share farming enterprises these conditions may not be met. The Paper proposes that the law should be changed to exempt from non-domestic rates properties used by a single agricultural business which operates over a number of separate agricultural holdings and buildings which are used jointly by a number of agricultural businesses.

#### **Proposed Response**

**It is considered that the Scottish Executive's proposals are fair and reflect moves towards making farm businesses more efficient and ensuring that the best of use of machinery and other assets is achieved. The proposals are therefore welcomed.**

## **4 RECOMMENDATIONS**

**4.1** It is recommended that Members -

- (i) agree that a response be made to the Scottish Executive on the Consultation Paper consistent with the proposed responses indicated above and
- (ii) otherwise note the contents of this Report.

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AMcP/JP  
20 April 2001

### **BACKGROUND PAPER**

**Scottish Executive Publication: February 2001 – Rate Relief for Small Businesses  
(Consultation Paper)**

**AGENDA**