

# Quick guide

## Business Rates / Non-Domestic Rates (NDR)

December 2006

### Introduction

Business rates (also known as national non-domestic rates (NDR)) – constitute one of the principal sources of local government funding in England and Wales. Occupiers of non-domestic hereditaments<sup>1</sup> pay business rates in contribution to the cost of local services. In Wales, business rates are collected by local authorities (the billing authority) and paid into a national “pool” administered by the Welsh Assembly Government. They are redistributed to local authorities and police authorities as part of the local government settlement. Billing authorities issue rates bills between February and April of each year.

The key organisations involved in the calculation, charging and collection of business rates in Wales are:

- the Welsh Assembly Government, responsible for government policy on local taxation and setting the national non-domestic multiplier;
- the Valuation Office Agency (VOA), an executive agency of the Inland Revenue, which assesses rateable values that are the basis for working out rates bills;
- the Valuation Tribunal Service, an independent, judicial body that hears appeals regarding the valuation of property;
- local (billing) authorities, responsible for calculating and collecting business rates and granting relief.

### Calculation of Business Rates

Business rates are calculated by multiplying the ‘rateable value’ of property by the ‘national non-domestic multiplier’ (less any relief to which the ratepayer may be entitled). The procedure for calculating, assessing collecting and distributing non-domestic (business) rates is prescribed, principally, by the Local Government Finance Act 1988 and subordinate legislation.

<sup>1</sup> Defined, by the Valuation Office Agency, as ‘a separate unit of rateable occupation’.

<sup>2</sup> *Local Government Finance Act 1988* (Chapter 41) [http://www.opsi.gov.uk/acts/acts1988/Ukpga\\_19880041\\_en\\_1.htm](http://www.opsi.gov.uk/acts/acts1988/Ukpga_19880041_en_1.htm)

Every non-domestic property has a rateable value<sup>3</sup>, which is set every five years<sup>4</sup> by the VOA to reflect changes in the property market. Rateable value is an estimate of the annual rent a non-domestic property could attain on the open market on the Antecedent Valuation Date<sup>5</sup> (AVD). New AVDs are set at each revaluation; the AVD for the 2005 revaluation is 1 April 2003.

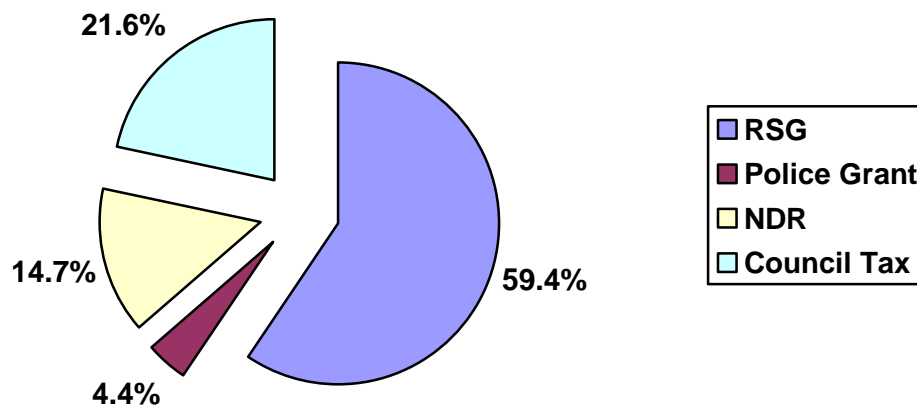
The Welsh Assembly Government sets the national non-domestic multiplier (otherwise known as the “rate in the pound”) each year. The non-domestic rating multiplier for 2006/07 is 43.2p.

Business rates are paid into the Assembly’s non-domestic rates ‘pool’. This money (the 'distributable amount') is redistributed to local authorities through the annual local government settlement. Local authorities and police authorities use their share of redistributed NDR, together with income from council tax, revenue support grant (RSG) and other sums, to finance the services they provide.

## Contribution to Local Government Funding

In 2006/7 the Revenue Support Grant accounted for 59.4% of the budget requirement across Wales, with council tax accounting for 21.6% and redistributed NDR 14.7%. Police grant and floor funding from the Home Office made up the remaining 4.4%

Figure 1. Financing of Budget Requirement for Police and Local Authorities 2006-07



Source: Welsh Assembly Government

## Eligibility for Relief

There are various forms of relief available to reduce the amount of business rates for which ratepayers are liable, some of which are mandatory<sup>6</sup> and some discretionary. The Welsh Assembly Government satisfies the entirety of the cost of mandatory rate relief and up to

<sup>3</sup> Certain non-domestic properties (e.g. power stations) are not assigned rateable values, but are subject to prescribed rating by the VOA (as it is difficult to assign a rateable value to such properties on the basis of rental value).

<sup>4</sup> As a result of the recent revaluation exercise, from 1 April 2005 non-domestic properties in Wales have a new rateable value

<sup>5</sup> The date of valuation

<sup>6</sup> Businesses automatically qualify for mandatory relief if they meet criteria prescribed by statute

75% of any discretionary relief allowed by local authorities (or 90% for Rural Rate<sup>7</sup> Relief). Accordingly, in granting any discretionary relief local authorities must have regard to the council tax payer, since 25% (or, 10% for Rural Rate Relief) of the cost of discretionary relief has to be met locally through an increase to the council tax.

Many forms of relief are prescribed by primary legislation<sup>8</sup> and the Assembly is not empowered to amend certain aspects of such schemes. Certain types of property are exempt, by statute, from liability for business rates<sup>9</sup>.

### **Hardship Relief**

By section 49 of the Local Government Finance Act 1988 local authorities have discretion to allow businesses suffering hardship relief of up to 100%. Authorities must be satisfied that hardship has occurred or would occur, if relief were not granted. Individual local authorities have guidelines on hardship relief.

### **Charitable Relief**

Mandatory relief of 80% of liability is available to charitable organisations registered with the Inland Revenue as charities and occupying premises wholly or mainly used for charitable purposes. The premises must not be shared with any non-charitable bodies. Billing authorities have discretion to remit all or part of the remaining 20% of a charity's bill on such property and can also give relief in respect of property occupied by certain bodies not established or conducted for profit. Further, since 1 April 2004, mandatory relief of 80% is granted to community amateur sport clubs (CASCs) registered with the Inland Revenue.

### **Empty Property Relief**

Owners of unoccupied non-domestic properties may be liable to empty property rating, charged at 50% of standard liability. Liability for the reduced rating begins after the property has been empty for 3 months. Certain types of property, for instance factories and warehouses, are exempt from empty property relief.

### **Partly Occupied Properties**

Where non-domestic property is partly occupied for a short time, local authorities have discretion to grant a reduction.

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<sup>7</sup> The rural rate relief scheme is to be superseded by the Small Business Rate Relief Scheme in April 2007

<sup>8</sup> Including the [Local Government and Finance Act 1988](#) and the [Local Government and Rating Act 1997](#)

<sup>9</sup> Under the *Local Government Finance Act 1988* exempt properties include agricultural premises and fish farms, places of religious worship, sewers and property of drainage authorities, certain parks, property used for the disabled, and property in enterprise zones.

<sup>10</sup> [The Non-Domestic Rating \(Demand Notices\) \(Wales\) \(Amendment\) \(Rural Rate Relief\) Regulations 1998](#)

## Rural Rate Relief

Since April 2002, businesses with a rateable value of £6,000 or less in a qualifying rural settlement, (i.e. population is less than 3,000) have received a mandatory 50% reduction in their rates bill. However, where the business is a shop or post office, in order to qualify for relief, it has to be the sole shop or post office. (This is set in primary legislation<sup>10</sup> and so cannot be changed by the Assembly). Pubs and petrol stations with a rateable value of £9,000 or less also receive a mandatory 50% reduction. Local authorities have discretion to grant further relief to take the total relief allowed to 100% of the rates bill. Discretionary relief can be granted to businesses with a rateable value of up to £12,000, provided the business provides a vital role to the community.

## The new Small Business Rate Relief Scheme

The Rural Rate Relief scheme was extended at the time of the foot and mouth crisis as part of the Assembly Government's Rural Recovery Plan. This is now complete and the Assembly Government decided that the scheme needed to be reviewed.

The **Local Government Act 2003** provides the Assembly Government with the power to set up a relief scheme for small businesses in Wales. Such a scheme is already in existence in England and the Welsh Assembly Government commissioned research to consider whether a similar scheme should be introduced in Wales. The consultation paper Business Rate Relief in Wales: A Sustainable Future, based on the research, was issued by the Assembly Government in December 2005.

In September 2006 the Minister announced a new Small Business Rate Relief Scheme<sup>11</sup> giving businesses with a rateable of £2,000 or less a 50% reduction in their rates, and businesses with a rateable value between £2,001 and £5,000 25% reduction. In addition, there will be enhanced relief for Post Offices in all parts of Wales. Post Offices with a rateable value up to £9,000 will receive 100% relief, and those with a rateable value between £9,001 and £12,000 will receive 50% relief.

## BIDs and LABGI

The Local Government Act 2003 contains provisions to give the National Assembly for Wales powers to set up Business Improvement Districts (BIDs) in Wales. A BID is a partnership arrangement through which local authorities and the local business community can take forward schemes. Ratepayers agree to pay an additional levy on their rate bill to finance a BID and decide in advance on the way in which their money is spent and how much they are prepared to pay in addition to their rates bill. Each ratepayer who is asked to contribute to the BID votes on whether or not that BID goes ahead<sup>12</sup>.

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<sup>11</sup> Consultation on the proposals and the draft legislation closed on 26 October 2006 and the scheme will come into operation on 1 April 2007 subject to approval by the Assembly in Plenary,

<sup>12</sup> A BID is currently being piloted in Swansea City Centre, see:

The Local Authority Business Growth Incentive Scheme (LABGI) gives every authority the potential to retain some of the business rate revenues it collects to spend on its own priorities. The aim is to increase the incentive for local authorities to work in partnership with local business and others to maximise local economic growth and regeneration. The scheme was introduced in 2005. The Assembly sets a baseline of rateable value for each local authority and it is allowed to retain some or all of the business rates generated in excess of this baseline.

## The Lyons Review

A major review of Local Government funding is being conducted by Sir Michael Lyons in England. However, any proposals to change primary legislation regarding Business Rates are likely to effect Wales as well. In his interim Report in May 2006 Sir Michael recommended that Business Rates should be re-localised. The final Report is expected in the new year.

## Further information

For further information on the topics below, double click on the links.

- The Valuation Office Agency [Business Rates: an Introduction](#)
- The Valuation Office Agency [2005 Property Rating List](#)
- The Valuation Office Agency [Analysis of movement in Rateable Values 2000-2005](#)
- Welsh Assembly Government Statistical Directorate [NDR Statistics](#)
- Office of the Deputy Prime Minister [Rate Relief for Charities and other NPM organisations](#)
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