Scottish Fiscal Commission

# Supplementary Costings: Non-Domestic Rates Measures and Self-Isolation Support Grant

March 2021

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# Foreword

The Scottish Fiscal Commission is the Independent Fiscal Institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish GDP, devolved tax revenues and social security spending to inform the Scottish Budget. This report sets out our assessment of the financial effect of the two changes to Non-Domestic Rates (NDR) reliefs announced by the Scottish Government and introduced at Stage 2 of the Budget Bill debate. We also provide a revised forecast of spending on the Self-Isolation Support Grant following the Scottish Government's announcement on 2 February 2021 that the grant is being extended to more people on low incomes.

The Commission produces two sets of forecasts a year, accompanying the Scottish Budget and the Medium Term Financial Strategy. We can also produce forecasts at any time on "other fiscal factors". Fiscal factors are "anything which the Scottish Ministers use to ascertain the amount of resources likely to be available for the purposes of sections 1 to 3 of the Public Finance and Accountability (Scotland) Act 2000".[1] This includes new tax reliefs introduced by the Scottish Government.

Our objective is to ensure the Scottish Parliament has an independent estimate of the effect of a policy change on revenues or spending, known as a policy costing, associated with any proposed legislation relating to taxes or benefits. As a result, we cost only policies announced at fiscal events or which accompany legislative changes introduced in the Scottish Parliament.

Dame Susan Rice DBE

Professor Francis Breedon

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5 March 2021

[1] Scottish Fiscal Commission Act 2016 (link)

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# Chapter 1 Introduction

## Introduction

1.1 We are publishing this supplementary document to accompany Stage 2 of the Budget Bill debate, which takes place on 8 March 2021.

### Non-Domestic Rates

1.2 On 28 January 2021, the Scottish Government announced a three-month extension to the retail, hospitality, leisure and aviation relief (RHL) which was introduced for the 2020-21 financial year as part of a package of support to business in response to COVID-19.[2] In our January 2021 publication of Scotland's Economic and Fiscal Forecasts (SEFF), we estimated that this policy would reduce NDR income by £185 million in 2021-22.[3] Since the publication of the Budget, the Scottish Government has announced that the RHL relief will be extended to cover the full financial year, and confirmed that it will continue to include premises used for news publishing. The Scottish Government has also announced a one-year delay to the start date for mainstream independent schools to no longer be eligible for charitable rates relief to 1 April 2022.[4]

1.3 We use the forecasts for NDR that were made in our January 2021 SEFF as the starting point for our costings. Our forecasts are of the contributable amount of NDR.[5]

1.4 Having revisited our January 2021 costing of the RHL extension, we identified that our methodology overestimated the cost of the relief for properties eligible for another relief in addition to RHL by £5 million.[6] This means the costing of the three-month extension announced in the January 2021 Budget should have been £180 million. We have corrected for this in our current costing. These two policy changes, together with our correction, lead to a decrease in NDR income of £541 million in 2021-22 compared to our January 2021 forecast. Figure 1.1 summarises the change.

**Figure 1.1: Change in Non-Domestic Rates forecast since January 2021**

| £ million | 2021-22 |
|---|---|
| January 2021 forecast | 2,680 |
| Correction to January 2021 RHL costing | 5 |
| Extension of RHL relief for a further nine months | -539 |
| Charity relief for mainstream independent schools | -7 |
| March 2021 forecast | 2,139 |
| Total change | -541 |

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).
Figures may not sum because of rounding.

[2] Scottish Government (2020) Scottish Budget 2021-22 (link).
[3] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).
[4] Scottish Government (2021) Non-domestic rates relief extended (link)
[5] The contributable amount is the NDR revenue collected by Local Authorities and contributed into the central pool.
[6] We have classified this error as non-material and important. See Scottish Fiscal Commission (2018) Statement of Voluntary Compliance with the Code of Practice for Statistics (link)

## Self-Isolation Support Grant

1.5 The Scottish Government introduced the Self-Isolation Support Grant (SISG) in October 2020 to support people who are required to self-isolate because of COVID-19 but are unable to work from home. In our January 2021 SEFF we provided an estimate of spending on the SISG based on the Scottish Government's policy at the time. In February 2021, the Scottish Government widened the eligibility conditions and we provide an estimate of the additional cost of this policy in Chapter 3.

1.6 We now have two months of additional data on SISG spending and COVID-19 cases. In revising our forecast of spending in 2020-21, we first took account of the new data which showed a lower number of awards in January than we had expected.[7] We then estimated the cost of expanding eligibility. The change in the SISG forecast because of this data update and the new policy are shown in Figure 1.2.

1.7 Our forecast of spending in 2021-22 is unchanged before accounting for the expanded eligibility and reflects the same broad assumptions we made in January; that the numbers required to self-isolate reduce gradually over the financial year. We continue to assume no spending beyond the 2021-22 financial year.

**Figure 1.2: Change in Self-Isolation Support Grant forecast since January 2021**

| £ million | 2020-21 | 2021-22 |
|---|---|---|
| January 2021 forecast | 5.0 | 6.1 |
| Data update | -1.5 | 0.0 |
| Expansion of policy | 0.8 | 4.6 |
| March 2021 forecast | 4.2 | 10.7 |
| Total change | -0.8 | 4.6 |

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).
Figures may not sum because of rounding

[7] Scottish Government (March 2021) Management information on Scottish Welfare Fund and Self-Isolation Support Grants and Official Statistics on Discretionary Housing Payments to January 2021 (link)

# Chapter 2
# Non-Domestic Rates

## Title of measure

**100 per cent RHL relief extended by a further nine months**

## Measure description

2.1 The 100 per cent RHL relief was due to expire on 31 March 2021. In the 2021-22 Budget, the relief was extended for the first three months of the 2021-22 financial year. The Scottish Government has announced it will now be available for the full financial year and confirmed that premises used for the production of newspapers will continue to be eligible.

## The cost base

2.2 The cost base is eligible properties in the aviation sector and the retail, leisure, hospitality and newspaper publishing sectors, excluding businesses that committed to donating an amount equivalent to the relief they received in 2020-21 to the Scottish Government.

## The costing

2.3 We use data from the Billing System Snapshot to identify the properties that received the relief in 2020-21.[8] Our assumption is that the cost base in 2021-22 will be similar to that in 2020-21 with the exception of those retailers and other relief recipients that have committed to repaying the relief that they received in 2020-21. The relief was automatically applied in 2020-21 and a number of retailers that have not seen a reduction in trade because of the pandemic have committed to donating the amount of their 2020-21 relief to the Scottish Government. In light of these public commitments, we assume these retailers will not claim the relief in 2021-22 and exclude them from our calculation. We estimate that the total cost of extending the relief for the full financial year is £719 million, £539 million more than our estimate of £180 million for the three month extension.

**Figure 2.1: Cost of extending the RHL relief for a further nine months**

| £ million | 2021-22 |
|---|---|
| Cost of providing RHL for 12 months, of which: | -719 |
| Initial three-month extension | -180 |
| Further nine-month extension | -539 |

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.

## Uncertainties about the costing

2.4 There is a high level of uncertainty around this costing. The Scottish Government has confirmed it intends to offer the relief without a cap applied under the terms of the UK-EU Trade and Cooperation

[8] Scottish Government (2020) Billing System Snapshot (link)

Agreement.[9] As noted in our January 2021 publication, this may be reconsidered in light of further legal advice. If the cap of 325,000 Special Drawing Rights over any period of three fiscal years were applied, we estimate the cost of the relief for the full twelve months would be £217 million lower, at £502 million.

2.5 We assume relief recipients who committed to donating the relief received in 2020-21 will not claim it in 2021-22. If the cap described above were applied, this assumption would make little difference to the costing. Without the cap, if these recipients did claim the relief in 2021-22, the twelve-month cost of the policy would increase to £904 million.

2.6 We assume all other eligible ratepayers will claim the relief. They are already likely to be aware of the relief given that it was available in 2020-21 and the incentive to apply will be considerable. Should any eligible ratepayers not claim relief, we would expect these to be concentrated among properties with low rateable values or those already receiving another relief covering a significant proportion of their NDR Bill and so does not significantly affect the costing.

[9] UK Government (2020) EU-UK Trade and Cooperation Agreement (link)

## Title of measure

**Delaying the date from which mainstream independent schools become ineligible for charity relief by one year to 1 April 2022**

## Measure description

2.7 As part of the Non-Domestic Rates (Scotland) Act 2020, the Scottish Government changed the eligibility of mainstream independent schools for charitable rates relief. Independent schools registered as charities can currently claim up to 100 per cent relief – 80 per cent mandatory relief with a further 20 per cent relief at the discretion of Local Authorities. The policy change will remove eligibility for charity relief for mainstream independent schools. Independent special schools which offer enhanced provision for children who have additional support needs, as well as specialist independent music schools, will retain their eligibility for charity relief. The commencement date of this policy was originally scheduled for 1 September 2020 and was later changed to 1 April 2021. The Scottish Government is now changing the start date to 1 April 2022.

## The costing

2.8 To cost the original policy we used data from the Billing System Snapshot to estimate the total amount of charity relief claimed by mainstream independent schools in 2019-20.[10] We grew this estimate in line with our forecast of the poundage (basic tax rate) to derive the figure for later years. We estimated that the policy would have increased NDR revenue by £7 million in 2021-22. This income is foregone because of the one-year delay to the start date. Hence, the policy change decreases NDR income by £7 million in 2021-22, compared to our January 2021 forecast, as shown in Figure 2.2.

**Figure 2.2: Cost of delaying the date from which independent schools become ineligible for charity relief**

| £ million | 2021-22 |
|---|---|
| | -7 |

Source: Scottish Fiscal Commission

[10] Scottish Government (2019) Billing System Snapshot (link)

# Chapter 3
# Self-Isolation Support Grant

## Title of measure

**Extension of the Self-Isolation Support Grant (SISG) to low income households and people earning less than the Real Living Wage.**

## Measure description

3.1 Since 2 February 2021 the Scottish Government has expanded the Self-Isolation Support Grant (SISG) beyond those eligible for a qualifying benefit. People who earn less than the full-time equivalent of the Real Living Wage (£9.50 per hour at 37.5 hours per week) and who are unable to work from home and would lose income as a result of self-isolation are now eligible, if they are told to self-isolate or they care for someone who is told to isolate. This includes part-time workers whose income is less than if they worked full-time at the Real Living Wage.

3.2 In addition, anyone in a household deemed to be on a low income is now eligible. This threshold has been increased to an income 25 per cent above the level of earned income at which a household would stop qualifying for Universal Credit. This means that the income level at which someone qualifies for SISG depends on their family size and local authority.[11]

## The cost base

3.3 The cost base is all individuals who have now become eligible for the grant because of the expansion, who are required to self-isolate, and who apply for the grant.

## The costing

3.4 Analysis by the Scottish Government using the Family Resources Survey estimated 780,000 people were potentially eligible for the grant before the extension. An additional 590,000 are estimated to be brought into potential eligibility as a result of the extension, representing a 75 per cent increase. This gives a total of 1.37 million people estimated to be in work and on a low enough income to qualify for SISG if they were asked to self-isolate, couldn't work from home and would lose income as a result of self-isolation.

[11] Self-Isolation Support Grant: check if you're eligible (link)

**Figure 3.1: Change in Self-Isolation Support Grant forecast since January 2021**

| £ million | 2020-21 | 2021-22 |
|---|---|---|
| January 2021 forecast | 5.0 | 6.1 |
| Data update | -1.5 | 0.0 |
| Expansion of policy | 0.8 | 4.6 |
| March 2021 forecast | 4.2 | 10.7 |
| Total change | -0.8 | 4.6 |

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).
Figures may not sum because of rounding.

3.5 We consider the approach taken by the Scottish Government to assess the increased eligible population to be reasonable and have applied a 75 per cent increase to our pre-measures forecast for the whole of 2021-22 and for the months February and March in 2020-21.

## Uncertainties about the costing

3.6 The SISG forecast and this policy costing has a high degree of uncertainty, there are significant uncertainties about how the pandemic will evolve and therefore the numbers of people required to self-isolate. There is also uncertainty about compliance and take-up rates, and about the extent to which people asked to self-isolate will be able to work from home.

# Additional Information

## Abbreviations

| | |
|---|---|
| NDR | Non-Domestic Rates |
| RHL | Retail, Hospitality and Leisure (and aviation and newspaper publishing) |
| SEFF | Scotland's Economic and Fiscal Forecasts |
| SISG | Self-Isolation Support Grant |
| SFC | Scottish Fiscal Commission |

A full glossary of terms is available on our website:

https://www.fiscalcommission.scot/explainers/glossary/

## Professional Standards

The Commission is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Cooperation and Development (OECD).[12]

The Commission also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily comply as far as possible with the UK Statistic Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.[13]

## Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the commission, please contact info@fiscalcommission.scot. Press enquiries should be sent to press@fiscalcommission.scot.

All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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[12] OECD (2014) Recommendation on Principles for Independent Fiscal Institutions (link)
[13] Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics (link)

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