Scottish Fiscal Commission

Supplementary Costings: Non-Domestic Rates Measures – March 2020

This publication is available at www.fiscalcommission.scot

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ISBN: 978-1-911637-12-7

Published by the Scottish Fiscal Commission, March 2020

Laying Number: SFC/2020/2

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 updated forecasts for Non-Domestic Rates (NDR) and our assessment of the financial effect of the two new NDR reliefs announced as part of the Scottish Government's support to businesses in response to COVID-19.

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". 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.

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27 March 2020

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Chapter 1 Introduction

Introduction

1.1 On 18 March, the Scottish Government announced a significant package of support to business in response to COVID-19, including two new reliefs in 2020-21 for Non-Domestic Rates (NDR). The first reduces the tax bill for all properties in Scotland, and the second provides 100 per cent relief for the hospitality, leisure and retail sectors.[1]

1.2 The Commission is publishing this supplementary document to accompany legislation introduced on 26 March 2020. We include updated forecasts of NDR income, reflecting the changes made at Stage 3 of the Non-Domestic Rates (Scotland) Bill in February 2020 as well as the two new reliefs announced by the Scottish Government.[2] Our forecasts are of the contributable amount of NDR.[3]

1.3 The UK Government has also announced support for business, including changes to business rates in England. The Scottish Government receives funding based on the UK Government's spending announcements, calculated using the Barnett formula. Changes to business rates in England, and other policies announced by the UK Government, resulted in increased funding for the Scottish Government.[4] This funding will cover the cost of these two reliefs along with other policies announced by the Scottish Government. Our future publications will set out the Scottish Government's funding position in detail.

[1] Scottish Government (2020) News: £2.2 billion for business (link). The relief also covers airports and registered letting agents.

[2] Scottish Fiscal Commission (2019) Non Domestic Rates (Scotland) Bill – Supplementary Costings (link)

[3] The contributable amount is the NDR revenue collected by Local Authorities and contributed into the central pool.

[4] Letter from the Cabinet Secretary for Finance to the Finance and Constitution Committee 18 March 2020 (link)

Summary of policy costings

1.4 The two policies announced by the Scottish Government which affect the NDR contributable amount are:

- 1.6 per cent rates relief for all properties across Scotland, effectively reversing the increase in the poundage from 1 April 2020 for one year
- a 100 per cent rates relief for retail, hospitality and leisure sectors along with all airports from 1 April 2020 for one year

1.5 These policy costings are summarised in Table 1.1 and we explain them in further detail in Chapter 3.

Table 1.1: Summary of policy costings

£ million	2020-21
1.6 per cent rates relief for all properties	-51
100 per cent rates relief for retail, hospitality, leisure and airports	-824
Overall effect of new policies	-875

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

Announced measures that are not costed

1.6 The Scottish Government announced several policies to support business in response to COVID-19, but only the two policies that directly affect NDR revenue are costed in this document. The broad criteria for determining which policy changes the Commission decides to cost and which fall out of our scope were set out in our paper on policy costings in September 2019.[5]

1.7 The Scottish Government announced a fund to provide grants to small businesses in sectors facing the worst economic effects of COVID-19.[6] This policy does not affect NDR revenues and therefore is not included in our forecasts.

1.8 The Scottish Government has also announced that it will be urging local authorities to respond positively to requests from ratepayers for payment deferrals for a fixed period. Our forecasts are for total revenues over the year, at present we do not know how long any deferrals may be for or how significant these requests will be given the new reliefs being introduced. We have made no adjustment to our forecasts but will keep this policy under review in our next forecasts.

[5] Scottish Fiscal Commission (2019) Approach to Policy Costings (link)

[6] Scottish Government (2020) News: £2.2 billion for business (link)

1.9 Our forecasts of NDR income are for what is known as the 'contributable amount': the NDR revenue collected by Local Authorities and contributed into the central 'pool'. The 'distributable amount' is the amount of NDR revenue distributed by the Scottish Government to Local Authorities. The Scottish Government set the distributable amount in the Scottish Budget and it remains unchanged in 2020-21. We have no role in setting the distributable amount or considering any other aspects of local government financing.

Effects on other reliefs falling below materiality threshold

1.10 The introduction of the two new reliefs is likely to have very minor effects on the costings for a number of the policy changes that will be introduced as part of the Non-Domestic Rates (Scotland) Bill. For example, our costing for the increase in the reset period for empty property relief may be affected if industrial properties that are empty and currently claiming 100 per cent relief move to the 50 per cent rate of relief. This is because they will become eligible for the new 1.6 per cent relief as well. We consider the effect on these costings to be very small, even when taken together, and below our £0.5 million materiality threshold.

1.11 The new reliefs may cause ratepayers to switch between reliefs. For example, rather than topping up an existing relief which requires an annual application, a ratepayer may choose to apply for the 100 per cent retail, hospitality and leisure relief instead. This does not change the overall cost of reliefs to the Scottish Government, since any extra cost of claiming the new relief will be offset by a reduction in the cost of the previously claimed relief, but may slightly alter the composition of reliefs.

Uncertainty

1.12 These policy costings are subject to the same uncertainties as our central forecast. This forecast is based on the same assumptions as our February 2020 forecast. Judgements and uncertainties stemming from developments since then will be provided in our next forecast publication.

Chapter 2
Updated Forecasts

Forecast

2.1 We have updated our February 2020 forecasts of NDR income to incorporate changes made to the Non-Domestic Rates (Scotland) Bill at Stage 3. We were unable to include these in our February forecasts because Stage 3 completed one day before the Scottish Budget, more than a week after our forecasts were finalised.

2.2 Stage 3 of the Bill reversed two policy changes made at Stage 2. The repeal of Section 153 of the Local Government etc. (Scotland) Act 1994 was reversed. The Stage 2 amendment would have ended the Scottish Government’s legal power to set a number of reliefs and to set supplements to the poundage from 2024-25, effectively abolishing them. Similarly, an amendment to bring private student accommodation into scope for NDR from 2022 was also reversed.

2.3 The only other updates come from the policy measures costed in this document.

Table 2.1: Change in NDR forecast since February 2020

£ million	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
February 2020	2,847	2,806	2,749	3,012	3,345	3,423	3,590
NDR Bill Stage 3					-18	-18	-252
March 2020 Pre-measures	2,847	2,806	2,749	3,012	3,326	3,404	3,338
Policy costings			-875				
March 2020 Post-measures	2,847	2,806	1,874	3,012	3,326	3,404	3,338

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link).
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

Chapter 3
Policy Costings

Introduction

3.1 This Chapter sets out the methodology used to cost the two new policies announced by the Scottish Government, including the different steps and judgements taken. Table 3.1 provides a summary. Negative figures indicate costs to the Scottish Budget. We will monitor both these policies as they come into effect and may revise our costings in future publications.

Table 3.1: Summary of policy costings

£ million	2020-21
1.6 per cent rates relief for all properties	-51
100 per cent rates relief for retail, hospitality, leisure and airports	-824
Overall effect of new policies	-875

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

Title of measure

1.6 per cent rates relief for all properties across Scotland from 1 April 2020

Measure description

3.2 For 2020-21, ratepayers will receive a relief of 1.6 per cent, roughly equivalent to the poundage not being increased by CPI, but instead remaining at 49.0p. The fact that this is a relief rather than a reduction in poundage means that the 1.6 per cent reduction also applies to the full bill of properties paying either the Intermediate Property Rate or the Higher Property Rate, whereas a reduction in poundage would not affect these supplements. The relief lasts for one year. The 2020-21 poundage will remain the same as set out in the Scottish Budget 2020-21, at 49.8p.

The cost base

3.3 The cost base is all non-domestic rates properties that are liable to pay rates in 2020-21.

The costing

3.4 The costing uses data from the valuation roll and combines it with the billing system. This allows us to see the reliefs that are currently being claimed. The 1.6 per cent relief is applied on top of existing reliefs, up to a maximum of 100 per cent. As the relief requires no application by ratepayers, we assume 100 per cent take-up. The costing is shown in Table 3.2.

Table 3.2: Costing for 1.6 per cent rates relief

£ million	2020-21
	-51

Source: Scottish Fiscal Commission

Title of measure

A 100 per cent rates relief for retail, hospitality and leisure sectors along with all airports from 1 April 2020

Measure description

3.6 Eligible properties receive 100 per cent relief applied to their gross rates payable for the duration of 2020-21.

The cost base

3.7 The cost base is eligible retail, leisure and hospitality properties and all airports. Retail includes lands and heritages used for the provision of goods, for example shops, post offices and petrol stations. It also includes properties used for the provision of services, for example hair and beauty salons, travel agents or dry cleaners. Leisure includes properties such as sports clubs, cinemas and live music venues. Hospitality includes properties such as bed and breakfasts, camping sites, pubs, restaurants and hotels. The relief also includes private airports and registered letting agencies. A full list of eligible properties can be found in the legislation.

3.8 The relief excludes any lands and heritages that are either claiming or eligible to claim empty property relief.

The costing

3.9 We use data from the valuation roll and the billing system, selecting only eligible retail, hospitality and leisure properties, airports and lettings agencies that are on the Scottish Letting Agents Register.[7] Where properties receive less than 100 per cent relief after accounting for existing reliefs and the newly introduced 1.6 per cent relief, their total amount of relief is topped-up to 100 per cent. For those hospitality properties claiming transitional relief, we assume ratepayers claim the new relief instead.[8] As letting agencies are not a separate category on the valuation roll, we manually identified a sample of 78 letting agencies. The sample was selected so that it included at each least one letting agent in each local authority area, with the precise number in each area selected in proportion to the amount of private sector rental stock. We calculate the net bill payable by these properties, after other reliefs, and scale this up by the 833 properties on the Register that we assume to be eligible for the relief.

3.10 Our costing assumes that there will be 100 per cent take-up of the relief by eligible ratepayers. This is because the incentives for ratepayers are

[7] Scottish Letting Agents Register (link)

[8] We assume in this costing that there will be no effect from State Aid restrictions. In making this judgement, we are following the UK government's guidance on the equivalent relief for England and Wales. The Government has notified the EU of its intention to bring forward an immediate change to the UK's tax treatment of non-domestic property, in response to the ongoing Covid-19 emergency, and to seek clearance under Article 107(3)(b) of the Treaty on the Functioning of the European Union.

considerable, given the circumstances. The legislation includes a list of property types and the policy is likely to be widely publicised. Should any ratepayers not claim the relief, we would expect them to be concentrated among properties with low rateable values or those already receiving another relief covering a significant proportion of their NDR Bill. Should take-up be less than 100 per cent, we do not expect this to significantly affect the costing.

Table 3.3: Costing for retail, hospitality, leisure and airport relief

£ million	2020-21
	-824

Source: Scottish Fiscal Commission

Abbreviations

CPI	Consumer Price Index
GDP	Gross Domestic Product
NDR	Non-Domestic Rates
RV	Rateable Value
UK	United Kingdom

A full glossary of terms is available on our website:

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

Voluntary compliance with the Code of Practice for Statistics

The Commission seeks to adhere to the highest standards for analysis possible. While we do not produce official statistics (we produce forecasts), the Commission and our work voluntarily complies as much 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.

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