Scottish Fiscal Commission

Supplementary Costings: Non-Domestic Rates (Scotland) Bill

December 2019

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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 latest forecasts for Non-Domestic Rates (NDR) and our assessment of the financial impact of a number of policy changes that are included in the Non-Domestic Rates (Scotland) Bill, including those changed at Stage 2.

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18 December 2019

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Introduction

Introduction

1.1 The Scottish Fiscal Commission produces independent forecasts of the Scottish economy, devolved tax revenues and social security spending. The Commission publishes its forecasts twice a year in Scotland's Economic and Fiscal Forecasts. The forecasts are published simultaneously alongside the Scottish Budget and Medium Term Financial Strategy.

1.2 The Commission may also produce forecasts on "other fiscal factors". Fiscal factors are defined in the Scottish Fiscal Commission Act 2016 as: "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 several measures in the Non-Domestic Rates (Scotland) Bill.

1.3 Our objective is to ensure the Scottish Parliament has an independent estimate of the 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.

1.4 The Scottish Government introduced the Non-Domestic Rates (Scotland) Bill on 25 March 2019. The Bill completed Stage 2 on 4 December 2019. The Stage 3 debate is scheduled for early 2020.

1.5 The Commission is publishing this supplementary document to accompany the Financial Memorandum published by the Scottish Government ahead of the Stage 3 debate.[1] We include updated forecasts of Non-Domestic Rates (NDR) income and costings for policies included in the Bill that may affect the

[1] Scottish Parliament (2019) Non-Domestic Rates (Scotland) Bill (link)

contributable amount of NDR.[2] We have included all policies we consider to affect the amount of NDR collected. This includes two policies that we did not cost for the original Financial Memorandum but were previously included in our May 2019 forecasts.[3]

Policy costings accompanying the NDR Bill

1.6 This document sets out policy costings for a number of policy changes included in the Bill. The broad criteria for determining which policy changes the Commission decides to cost and which fall out of our scope are set out in our paper: “Approach to Policy Costings”.[4]

Box 1: Our role in the NDR Bill costing process

The Non-Domestic Rates (Scotland) Bill makes a number of changes to NDR. The Bill covers

- The administration and enforcement of NDR. These amendments include: changes to relief eligibility, changes to the appeals process and to the duration of the revaluation cycle.
- Information-gathering powers for assessors and Local Authorities. These include additional powers given to assessors and Local Authorities to issue written notices requiring ratepayers to provide certain types of information.
- The regulatory powers available to Scottish Ministers to tackle the avoidance of NDR.

As part of our statutory duty to provide independent and official forecasts of NDR revenues we may produce forecasts to accompany primary or secondary legislation. Where we already costed policies as part of our May 2019 forecasts we provide updated costings in this publication.

Once a policy is included in the Bill it is considered to be Government policy and therefore included in our forecasts and costings. This is regardless of the origin of the policy – whether the amendment was originally supported by the government or opposition.

Should there be any changes made to these policies as the Bill progresses through the Scottish Parliament we will incorporate them in our next forecasts.

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

[3] Scottish Government (2019) Non-Domestic Rates (Scotland) Bill Financial Memorandum 25 March 2019 (link) and Scottish Fiscal Commission (2019) Scotland’s Economic and Fiscal Forecasts – May 2019 (link)

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

1.7 The policies included in the Bill for which we provide either costings or re-costings are:

1. Devolution of Empty Property Relief to Local Authorities (section 11A).
2. Entering of certain student accommodation on the valuation roll (section 4A).
3. Restricting entitlement to reliefs other than Empty Property Relief and the Business Growth Accelerator to properties in active occupation (section 12).
4. Removal of charity relief eligibility for mainstream independent schools (section 10).
5. Ending the exemption for commercial activity on currently exempt parks and Council land vested in recreation (section 4).
6. Reliefs and Large Business Supplement terminated by the repeal of section 153 of the Local Government etc. (Scotland) Act 1994 (section 8c).

1.8 In addition there are two policy changes the Scottish Government has committed to making and has provided sufficient information for us to cost. Both these changes will affect the value of Empty Property Relief, and thus the costing for the devolution of empty property relief set out above. We have costed these policies and included them in our forecasts.

1.9 The current 42-day reset period for Empty Property Relief will be increased to six months. The change will be made through amending the Non-Domestic Rating (Unoccupied Property) (Scotland) Regulations 2018 with effect from 1 April 2020. Under the policy restricting reliefs other than Empty Property Relief and the Business Growth Accelerator to properties in active occupation we also account for the Scottish Government's planned change to the regulations for the Small Business Bonus Scheme and apply this restriction a year earlier – from April 2020.

1.10 These policy costings are summarised in Table 1.1. We explain them in further detail in Chapter 3 and discuss the degree of certainty that we attach to each costing. For example, identifying the cost base for independent schools is reasonably straightforward, as these are known and already included on the valuation roll. Other costings such as the inclusion of student accommodation and commercial activity in parks on the valuation roll are highly uncertain, as these properties are not on the roll and do not have a rateable value assigned.

Table 1.1: Summary of policy costings

£ million	2020-21	2021-22	2022-23	2023-24	2024-25
Devolution of Empty Property Relief			102	103	102
Student Accommodation			18	19	18
Properties not in active occupation [1]	11	17	22	22	21
Mainstream independent schools no longer eligible for charitable relief	4	7	8	8	7
Empty Property Relief reset period [2]	3	3			
Commercial activity in currently exempt parks			2	2	2
Reliefs and LBS terminated by Repeal of section 153					226
Overall effect of new policies	17	27	151	153	377

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] Empty property relief (EPR) will be devolved to Local Authorities on 1 April 2022. The active occupation costing does not include the EPR component from 2022-23, because this is included in the costing for EPR devolution.

[2] Empty property relief will be devolved to Local Authorities on 1 April 2022. The EPR reset costing ends in 2021-22, because this is included in the costing for EPR devolution.

Policy changes with no financial effect

1.11 There are a number of policies we have considered anfd concluded do not have a material effect on NDR income. The Bill contains a provision that devolves the power to set the poundage to Local Authorities from 2024.[5] In the absence of information on the rates Local Authorities would set, our best judgement would be for poundage to continue to match our central forecast, in which the last announced poundage rate (set for 2019-20) is uprated by the forecast Consumer Price Index (CPI) inflation rate. There would be no effect on the amount of NDR paid in our forecasts. The effect on the contributable amount of the devolution itself is uncertain, as further detail is required as to how this fits into the wider Local Government Finance Settlement.

1.12 The amendment relating to music schools in the state sector is categorised as having no financial effect. It is uncertain under current drafting whether any music school buildings would qualify for the relief. It is possible the schools may receive a relief equivalent to either the full NDR due or a portion of the NDR due, based on a valuation of the music school building. Even under a full exemption the maximum cost of the policy would be £1.1 million in 2020-21 and therefore not material in the scale of NDR income.

[5] This is the repeal of Section 110 of the Local Government Finance Act 1992 (link)

1.13 Any self-catering property for which the owner cannot provide evidence of being let for at least 70 days will move off the NDR roll and become liable for Council Tax. After examining these properties we conclude that the vast majority are either currently receiving 100 per cent relief from NDR or are short-term letting businesses which will be able to provide evidence of having been let for the required 70 days and thus continue to pay NDR. For those properties receiving 100 per cent relief, there is no effect on NDR income if they move to paying Council Tax instead of NDR. Any effect from properties not receiving 100 per cent relief by moving from the NDR roll to the Council Tax roll is immaterial. There would be an effect on Council Tax, which we do not cost, but not on NDR income.

1.14 The final policy which we deem to have no overall effect on NDR income is the change aligning the timing of debt collection processes for NDR and Council Tax. This allows earlier enforcement action for missed NDR payments. Overall we consider this policy is likely to affect the timing of NDR debt payments rather than the overall amount of NDR paid. There is no effect on our NDR forecast.

Measures included in the Bill that are not costed

1.15 There are a number of measures included in the Bill which may affect NDR income but we have not costed either because they do not fall into scope for us to cost or because at the time of publication the Commission has insufficient information on which to base a costing.

1.16 The Bill contains provisions for a move to revaluations of rateable values of non-domestic properties every three years, with the next valuations coming into effect from 1 April 2022. As of the 2025 revaluation cycle, the reference date for valuation will change to one year beforehand rather than two, as has been the case for past cycles.[6]

1.17 The length of the revaluation cycle affects the timing when refunds are made to ratepayers following successful appeals, appearing as a loss of NDR income. This should not change the amount of NDR paid in total over the revaluation cycle. The policy change is also linked to other changes designed to increase the speed and efficiency of the appeals process.

1.18 In any given year there will be an effect on revenue as it will lead to changes in the timing for the realisation of losses because of appeals. This is because under the new appeals system, all appeals are expected to have been resolved within three years rather than five.

[6] The assessment of all rateable value carried out by Scottish Assessors is undertaken with reference to a single date to ensure fairness. For the 2017 revaluation this date was 1 April 2015, for the 2022 revaluation this will be 1 April 2020. For the 2025 revaluation it is expected to be 1 April 2024.

1.19 The entire appeals process is being reformed through a combination of primary and secondary legislation. The Scottish Government is consulting on planned dates by which cases should be resolved and is working with the Assessors to estimate the additional resource requirements for future years. The Scottish Government plans to consult on other aspects of the new appeals system in 2020. While it is clear that changing to a shorter revaluation cycle and appeals system will have an effect on NDR income from year-to-year, we require further detail on the implementation of the policy change before reaching a judgement on the effect on the contributable amount of NDR.

1.20 There are a number of other policy changes for which we will not be providing a costing. The introduction of a General Anti-Avoidance Rule (GAAR) will not be costed as this is purely enabling legislation for Scottish Ministers. Sports club relief being restricted to properties which are affordable community facilities will not be costed because implementation of this policy requires the Scottish Government to provide statutory guidance to Local Authorities, but this has not yet been finalised.

1.21 Reform of empty property relief for listed buildings is not included because the first year this policy would be expected to affect NDR income is 2025-26, one year beyond our forecast horizon. Provision for assessors to mark properties eligible for the Business Growth Accelerator (BGA) on the valuation roll is not costed because it confirms an established policy. We provided an initial costing of the BGA in December 2017 when announced and the costing has been updated in each forecast publication since then.[7] Finally we will not be costing any of the administrative changes to NDR or the administrative costs of the changes.

1.22 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'. We do not consider the 'distributable amount', that is the amount of NDR revenue distributed by the Scottish Government to Local Authorities, or the effects on other aspects of Local Government financing such as Council Tax.

[7] Annex B of Scottish Fiscal Commission (2019) Scotland's Economic And Fiscal Forecasts – May 2019 (link)

Chapter 2

Updated Forecasts

Forecast

2.1 We provide updated forecasts of income from Non-Domestic Rates (NDR) reflecting new data and revised judgements as well as the policy changes made in the Bill. NDR income is forecast to increase by £824 million from 2020-21 to 2024-25.

Table 2.1: Non-Domestic Rates forecast

£ million	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Pre-measures	2,847	2,798	2,748	2,992	3,202	3,278	3,213
Policy measures			17	27	151	153	377
Post-measures	2,847	2,798	2,766	3,020	3,353	3,431	3,590

Source: Scottish Fiscal Commission, Scottish Government NDRi returns.
Shaded cells refer to outturn available at time of publication.
Figures may not sum because of rounding.

Changes since December 2018

Table 2.2: Change in NDR forecast

£ million	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
December 2018	2,827	2,785	2,887	3,087	3,295	3,332
Data updates	18	-58	-123	-85	-88	-91
Methodology changes	2	71	-15	-9	-5	36
December 2019 Pre-measures	2,847	2,798	2,748	2,992	3,202	3,278
Policy costings			17	27	151	153
December 2019 Post-measures	2,847	2,798	2,766	3,020	3,353	3,431

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link).
Note: We show the change in the forecast since December 2018 as this reflects the changes since the last Scottish Budget was set and fully reflects all policy changes introduced as part of the NDR Bill. Our forecast in May 2019 incorporated two of the Bill policies – the removal of charity relief for independent schools and the removal of the exemption for NDR for commercial activity on parks and council land.
Figures may not sum because of rounding.

2.2 There have been two main changes since our December 2018 forecast, over and above the effect of the Bill. The first is our forecast for appeals losses. Previously, we calculated appeals losses over the cycle by assuming that they correspond to the historical average of the proportion of the rateable value (RV) of cases resolved relative to the RV of cases lodged.

2.3 We have changed this assumption to one based on the historical pattern of RV lost to appeal in each year of the cycle as a share of total RV lost to appeal over the cycle. This aligns our methodology more with what we are forecasting, namely RV lost to appeal. The result is to increase NDR income by £66 million in 2019-20 and decrease NDR income in other years.

2.4 The second major change to our forecasts comes from data updates since December 2018. The incorporation of the audited Local Authority returns for 2018-19 reduces the forecasts for 2019-20 onwards by between £40 million and £50 million. We have also incorporated data for 2019-20 from the mid-year estimates from Local Authorities. The effect is to lower NDR income by £18 million in 2019-20 and by between £7 million and £10 million thereafter. Updated data for losses as a result of appeals lowers the forecast by £3 million in 2019-20, by £62 million in 2020-21 and by between £3 million and £16 million thereafter.

2.5 Other updates to the forecast include updating our poundage forecast for 2020-21 to account for the latest September CPI inflation figure published by the Office for National Statistics. The poundage rate will be set at the Scottish Budget in early 2020. In the absence of the actual poundage we continue to assume annual increases in line with inflation. The latest inflation figure lowers our forecast by £12 million from 2020-21 onwards. Our forecasts for future years use the OBR's inflation forecast from March 2019.[8]

2.6 The net effect of all the changes since December 2018, including policy costings, is to increase NDR income by £13 million in 2019-20 and lower NDR income by £121 million in 2020-21.

[8] Office for Budget Responsibility (2019) Economic and Fiscal Outlook – March 2019 (link)

Chapter 3

Policy Costings

Introduction

3.1 This Chapter sets out the methodology used to produce the costings of new policies included in the Bill, including the different steps and judgements taken. Table 3.1 provides a summary. Negative figures indicate costs to the Scottish Budget, whilst positive figures indicate gains. We will monitor all 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	2021-22	2022-23	2023-24	2024-25
Devolution of Empty Property Relief			102	103	102
Student Accommodation			18	19	18
Properties not in active occupation [1]	11	17	22	22	21
Mainstream independent schools no longer eligible for charitable relief	4	7	8	8	7
Empty Property Relief reset period [2]	3	3			
Commercial activity in currently exempt parks			2	2	2
Reliefs and LBS terminated by Repeal of section 153					226
Overall effect of new policies	17	27	151	153	377

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] Empty property relief will be devolved to Local Authorities on 1 April 2022. The active occupation costing does not include the EPR component from 2022-23, because this is included in the costing for EPR devolution.

[2] Empty property relief will be devolved to Local Authorities on 1 April 2022. The EPR reset costing ends in 2021-22, because this is included in the costing for EPR devolution.

Title of measure

Devolution of empty property relief (EPR) to Local Authorities

Measure description

3.2 The Stage 2 amendments include a provision to devolve EPR to Local Authorities.[9] This provision repeals section 24 of the Local Government (Scotland) Act 1966, which grants the power to the Secretary of State to make regulations concerning EPR. The policy change takes effect from 1 April 2022.

The cost base

3.3 The cost base is all properties claiming mandatory EPR.

The costing

3.4 The costing estimates the effect of the policy change on the contributable amount of NDR. The devolution of EPR to Local Authorities will take these properties out of the calculation of the contributable amount.

3.5 We start from our central forecast for EPR, which we adjust to reflect the changes for active occupation and the new EPR reset period. We then remove the adjusted figure from our forecast for 2022-23 onwards.

Table 3.2: Costing for devolution of EPR

£ million	2022-23	2023-24	2024-25
Devolution of Empty Property Relief	102	103	102
Of which:			
Properties not in active occupation	3	3	2
Empty Property Relief reset period [1]	-3	-3	-3

Source: Scottish Fiscal Commission
[1] The EPR reset period appears as a negative because by reducing the amount of relief spending pre-devolution, it means that the amount of EPR spending devolved to Local Authorities is lower than the case in which the reset period had remained unchanged.

Uncertainties around the costing

3.6 The main uncertainty comes from potential errors in our central forecast for EPR. Any deviation in our forecasts of poundage or changes to EPR data will affect the costing for devolving EPR. A second source of uncertainty is the adjustments made to reflect the costings for active occupation and the change in the reset period. As both rely on assumptions about the respective cost bases, any errors in these judgements could lead to errors in our costing for devolution of EPR.

[9] Amendment 42 of Scottish Parliament (2019) Non-Domestic Rates (Scotland) Bill 2nd Marshalled List of Amendments for Stage 2 (link)

Title of measure

Entering of certain student accommodation on the valuation roll

Measure description

3.7 Amendment 85 to the NDR (Scotland) Bill moves private student accommodation from the Council Tax roll onto the valuation roll.[10] Student accommodation provided by universities and colleges will be exempt. Currently student properties are on the Council Tax roll, but do not pay Council Tax. The intent is that only large purpose built student accommodation will be moved onto the valuation roll. We assume the policy change takes effect from 1 April 2022.

The cost base

3.8 The cost base is large, purpose-built student accommodation not provided by universities and colleges.

The costing

3.9 We use data from National Records of Scotland (NRS) that contains all properties classified as either ‘student accommodation’ or ‘halls of residence’ as at July 2019. From these we remove those owned by the universities or colleges by excluding those flagged as being managed by a ‘Government department/agency’. This leaves 114 properties which are considered in the costing.

3.10 To estimate the rateable value of the properties, we use the Assessors’ practice notes for the closest types of properties currently included on the roll; self-catering units and hotels. Student accommodation provides ‘additional facilities’ such as security and concierge, making them ineligible to be valued as self-catering units according to the notes. We assume budget hotels provide the closest approximation for the purposes of estimating a rateable value.[11]

3.11 Valuation of the accommodation aspect of budget hotels is based on applying a percentage of the hypothetical achievable turnover for the accommodation element of the hotel, which is between 12 and 18 per cent. The percentage applied reflects hotel quality and location, with a figure in the middle of the range reflecting a standard property in a standard location.

3.12 To calculate the hypothetical achievable turnover for student accommodation we take an average weekly rent per room of £155 (based on various internet

[10] Scottish Parliament (2019) Non-Domestic Rates (Scotland) Bill (link)

[11] Scottish Assessors Association (2017) Practice Note 20 Valuation of Hotels and Accommodation Subjects (link)

sources), multiply this by 52 weeks and by the number of bed spaces. The rateable value is estimated by applying a figure of 15 per cent (the middle of the range for budget hotels) to the hypothetical turnover estimate. NDR income is then calculated by applying the relevant poundage.

3.13 Finally, we determine whether these properties are eligible for relief. From our data, the only potentially relevant relief would be the Small Business Bonus Scheme (SBBS), but in all cases we have identified, the rateable value and/or the cumulative rateable value exceeds the relevant thresholds, meaning none of these properties would be eligible for SBBS. The final costing is shown in Table 3.3.

Table 3.3: Costing for student accommodation

£ million	2022-23	2023-24	2024-25
	18	19	18

Source: Scottish Fiscal Commission

Uncertainties around the costing

3.14 We attach a high degree of uncertainty to this costing. Our identification of relevant student accommodations is based on the list from NRS, which may not be a complete reflection of all properties that could fall under the new legislation. There is also potentially a difference between the wording of the amendment and the policy intent. The former suggests any non-university provided student accommodation might fall into scope. This could include small-scale private student accommodation landlords, rather than the large, purpose built accommodations. We have tried to capture the policy intent in our costing.

3.15 The second source of uncertainty is the RV we have assigned to the student accommodations. As these are not currently entered on the roll, they have no rateable value and we have had to estimate an RV using an estimate of average rents for the UK as a whole (excluding London) and practice valuation notes for the property type we consider to be most analogous. We have also interpreted the hypothetical maximum as 52 weeks. As student accommodations are not always occupied for the full year, the estimate of RV could differ. Assessors will be carrying out valuations to add these properties onto the roll which will likely differ from our estimates here. In addition, our estimate of RV in future years depends on our poundage forecast which relies on CPI inflation forecasts and Scottish Government policy. Should either of these change, our forecast would change accordingly.

Title of measure

Only properties in active occupation are entitled to claim certain reliefs

Measure description

3.16 Properties applying for relief other than empty property relief (EPR) and the Business Growth Accelerator (BGA) will have to demonstrate that they are in continuous active use. The power enables a Local Authority to serve a notice on a ratepayer receiving a relief other than empty property relief where the authority considers the property not to be in use or underused. Depending on ratepayer response, the Local Authority may issue a revised rates demand.

3.17 This policy change is designed to address the avoidance tactic of declaring an empty property to be active in order to claim more generous reliefs like the Small Business Bonus Scheme (SBBS) and charity relief, even when it is largely empty and often being put to little use.

3.18 The policy will come into effect as of 1 April 2021, with restrictions on properties claiming SBBS coming into force as of 1 April 2020.

The cost base

3.19 The cost base is non-domestic properties currently vacant or not in active occupation and claiming reliefs other than EPR and the BGA.

The costing

3.20 We use a data source, the Billing System, which lists all non-domestic properties in Scotland that are claiming a relief. The Billing System data also contains a flag to denote whether or not a property is vacant. The flag is not quality assured and so these data are subject to measurement error.

3.21 We consider all properties claiming EPR together with any other relief. It is assumed all these properties are empty so will only be eligible for EPR and hence 100 per cent of the cost of the other reliefs will be saved.

3.22 We then look at all properties with a vacant flag claiming 100 per cent relief that is not BGA or EPR. We assume 100 per cent of these properties will no longer claim the restricted reliefs, even though there are likely some properties with a vacant flag that are not actually vacant.

3.23 While it is possible that not all properties with a vacant flag are actually vacant, it is also possible some of those not flagged are vacant. The 100 per cent of properties assumption considers that these two groups will essentially cancel each other out. This assumption has a high degree of uncertainty but an alternative assumption would not reduce the uncertainty.

3.24 Finally, we adjust the costing to reflect the increased EPR spend resulting from some properties moving onto this less generous relief. We also restrict our criteria to SBBS only in 2020-21, reflecting the timing of policy introduction. The final costing is shown in Table 3.4. From 2022-23 onwards the costing no longer includes the adjustment for the increased EPR spend as this is integrated into the costing for the devolution of EPR.

Table 3.4: Costing for properties not in active occupation

£ million	2020-21	2021-22	2022-23	2023-24	2024-25
Reduction in spending on SBBS/Charity/Other relief	15	20	22	22	21
Increase in spending on EPR [1]	-4	-3			
Net cost of active occupation policy	11	17	22	22	21

Source: Scottish Fiscal Commission

[1] From 2022-23 onwards the costing excludes the adjustment for the increased EPR spend as this is subsumed into the costing for the devolution of EPR.

Note: a positive value indicates a decrease in Scottish Government spending on reliefs while a negative value indicates an increase in relief spending.

Uncertainties around the costing

3.25 This costing carries a very high degree of uncertainty. The main challenge is in identifying the cost base. Not all properties flagged as being vacant will be vacant. We also have no means of identifying those properties that are not flagged vacant, but are under-occupied.

3.26 There is uncertainty arising from how Local Authorities will implement the policy change. Administration of the rates system, including resourcing, is a matter for Local Authorities. Individual authorities will adopt different approaches to ensuring properties are currently in active use. We would not expect universal policing of active occupation but we have been informed that councils are aware of examples of underutilised properties claiming reliefs.

3.27 Individual authorities will likely adopt different approaches to ensuring properties are currently in active use. It is hard to determine exactly what councils will do, even around SBBS – for instance some councils review SBBS on an annual basis while others only do rolling reviews of certain properties once per revaluation cycle. Further uncertainty stems from the creation of a new appeals process for ratepayers to challenge council decisions.

3.28 Finally, there is uncertainty from our poundage forecast which relies on CPI inflation forecasts and Scottish Government policy. Should either of these change, our forecast would change accordingly.

Title of measure

Increase to six months the current 42-day reset period for Empty Property Relief, starting from 1 April 2020

Measure description

3.29 Unoccupied industrial property is eligible for 100 per cent relief for the first six months since becoming unoccupied and thereafter 10 per cent indefinitely. Other (non-industrial) unoccupied property is eligible for 50 per cent relief for the first three months since becoming unoccupied and thereafter 10 per cent indefinitely.

3.30 Currently, after a 42-day period of occupation, a property is eligible for EPR at the higher rate should it become unoccupied again. This could encourage patterns of occupation aimed at obtaining successive periods of higher rate EPR.

3.31 This measure increases the period during which a property must be occupied from 42 days to six months. The six month period will be discontinuous so as not to inhibit short-term lets and pop-up uses of empty property.

3.32 The policy will come into effect on 1 April 2020.

The cost base

3.33 The cost base is properties receiving successive periods of higher rate EPR. There is no easy way to identify these properties on the valuation roll or in the Billing System data. As a proxy we consider properties that are receiving the higher rate of EPR in the 2019 Billing System data, and also received EPR in the 2018 Billing System data. Since these data are only available as annual snapshots we risk missing some properties that were occupied on one or both of these dates but reset their eligibility in between.

The costing

3.34 The first step is to identify in the 2019 Billing System those properties receiving the higher rate of EPR. From these we exclude exempt properties – those that will receive 100 per cent indefinitely. To do this, we first remove those properties with a rateable value below £1,700 and those which have the core description 'ground' as they are exempt. Second we remove all properties receiving 100 per cent relief for a reason other than being industrial properties, for example listed buildings, as these are entitled to 100 per cent EPR until occupied, with no reset required. Some industrial properties could be exempt (because they are in listed buildings, or they are in administration) and these cannot easily be identified.

3.35 In the next step of the costing, the list of properties is matched to the 2018 Billing System data to narrow the list to just those who received EPR in both 2018 and 2019.

3.36 Having identified properties assumed to be resetting their eligibility for EPR, we consider two possible actions. The first is to continue resetting but receive less benefit from it, the second is to stop resetting and move onto the lower rate of EPR. We calculate the savings that would be made in each scenario.

3.37 We compare the average amount of relief received by a property currently taking maximum advantage of resetting with the amount that would be received under the new rule. Similarly we compare the current benefit of maximum resetting with moving onto the lower rate indefinitely. Under the first scenario, the additional NDR paid would be £1.9 million, while under the second it would be £3.6 million. We take the mid-point of these figures, £2.7 million. We then uprate this estimate in line with the poundage to produce the costing from 2020-21 onwards.

3.38 The final costing is shown in Table 3.5. From 2022-23 onwards the costing is subsumed into the costing for the devolution of EPR.

Table 3.5: Costing for empty property relief reset

£ million	2020-21	2021-22
	3	3

Source: Scottish Fiscal Commission

Uncertainties around the costing

3.39 There is a high degree of uncertainty around the costing. We may not be capturing properties that are only on EPR for one year, even though within that year they go through the reset period. This is because the Billing System is a snapshot taken at only one point in the year. Weekly and monthly data on EPR are not available.

3.40 A second uncertainty comes from the potential effect of the change to relief eligibility for properties not in active occupation. Some of those properties previously receiving another relief may switch to EPR. Were this to happen to a sufficient degree, we might expect this to have some effect on our costing.

3.41 The final uncertainty is from our poundage forecast which relies on CPI inflation forecasts and Scottish Government policy. Should either of these change, our forecast would change accordingly.

Title of measure

Mainstream independent schools no longer eligible to claim charity relief

Measure description

3.42 As part of the NDR Bill, the Scottish Government is changing the eligibility of mainstream independent schools to claim charity relief.[12] 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 removes eligibility for any 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 policy change takes effect on 1 September 2020.

The cost base

3.43 The cost base is all mainstream independent schools in Scotland, identified using a list provided by the Scottish Government.

The costing

3.44 The costing uses data from the Billing System to estimate the total amount of charity relief claimed by the mainstream independent schools in 2018-19. We grow this estimate using our poundage forecast. The forecast for the NDR income gained as a result of schools no longer claiming the relief is shown in Table 3.6. The additional NDR income rises from £4 million in 2020-21 to £8 million in 2023-24.

Table 3.6 Costing for mainstream independent schools no longer eligible to claim charity relief

£ million	2020-21	2021-22	2022-23	2023-24	2024-25
	4	7	8	8	7

Source: Scottish Fiscal Commission

Uncertainties around the costing

3.45 We attached a reasonably high degree of certainty to this costing as we have some information on the properties likely to be affected. There are two sources of uncertainty. The first is our poundage forecast which relies on CPI inflation forecasts and Scottish Government policy. Should either of these change, our forecast would change accordingly. Second is whether we have identified all of the mainstream independent schools correctly.

[12] Scottish Parliament (2019) Non-Domestic Rates (Scotland) Bill (link)

Title of measure

Commercial activity on current exempt parks and Council land vested in recreation will no longer be exempt from NDR

Measure description

3.46 Currently parks under the control of, or vested in, a local authority are not included on the valuation roll, unless the local authority derives a net profit from the park. Parks under the control of, or vested in, a Minister of the Crown, government department or other body exercising Crown functions are not included in the valuation roll, provided the public has free and unrestricted access to the park. Non-domestic properties located within such parks are not included in the valuation roll. No rates are payable in respect of parks or non-domestic properties which are not entered in the roll.

3.47 The policy change requires non-domestic properties within such parks to be entered in the valuation roll and pay NDR.[13] In addition, the policy change requires exempt parks which do not have free and unrestricted public access to be entered in the roll.

3.48 Affected properties will be brought onto the valuation roll in time for the next NDR revaluation on 1 April 2022 and rates will be payable for such properties from 2022-23 onwards.

The cost base

3.49 The cost base is non-domestic properties within identified parks currently not on the valuation roll.

The costing

3.50 There is no information on non-domestic properties in public parks that are not on the valuation roll. These properties have not been identified, nor have they been assigned a rateable value by Assessors. The costing follows the methodology set out in the Barclay Review.[14]

3.51 The costing assumes that, on average, five non-domestic properties in each of Scotland's 32 Local Authorities will be brought onto the valuation roll. As per the Barclay Review, we assume each property has an average rateable value of £20,000. We apply our poundage forecast to the total RV for all properties we assume are affected.

[13] Scottish Parliament (2019) Non-Domestic Rates (Scotland) Bill (link)

[14] Barclay Review of Non-Domestic Rates (2017) (link)

Table 3.7: Costing for commercial activity in currently exempt parks

£ million	2022-23	2023-24	2024-25
	2	2	2

Source: Scottish Fiscal Commission

Uncertainties around the costing

3.52 This costing carries a very high degree of uncertainty. The main challenge is in identifying the cost base. As these properties are not on the valuation roll, we do not know how many relevant properties there are, nor their rateable value. As such, we do not have a reliable estimate of the amount of NDR these properties might pay. Nor do we know whether they may be eligible for any reliefs after being brought onto the roll, for example through the SBBS.

3.53 Another source of uncertainty is our poundage forecast which relies on CPI inflation forecasts and Scottish Government policy. Should either of these change, our forecast would change accordingly.

3.54 Should relevant information arise before the implementation of the policy or after the process of identifying and valuing these properties is complete, we will revisit our costing of this policy change.

Title of measure

Reliefs terminated by the repeal of section 153 of the Local Government etc. (Scotland) Act 1994.

Measure description

3.55 Section 153 of the Local Government etc. (Scotland) Act 1994 confers the power to the Secretary of State to prescribe the amount of non-domestic rate.[15] Within this, the Scottish Government is granted the power to make regulations via statutory instrument. An amendment voted through at Stage 2 repeals section 153 by 2024. Repealing section 153 would have the effect of removing the Scottish Government's ability to provide national reliefs and on commencement would immediately abolish reliefs such as the Small Business Bonus Scheme, Business Growth Accelerator and Nursery Relief as set by the Scottish Government.[16] It would also abolish the Large Business Supplement (LBS).

3.56 The amendment states the policy change takes effect 'by the year 2024'.[17] We interpret this as the policy taking effect from 1 April 2024.

The cost base

3.57 The cost base is all reliefs set by the Scottish Government under section 153 of the Local Government etc. (Scotland) Act 1994 and all properties paying LBS.

The costing

3.58 Our costing estimates the effect of the policy change on the contributable amount of NDR. The devolution of reliefs to Local Authorities will take these out of the calculation of the contributable amount. We use the information provided in the November 2019 letter from the Minister for Public Finance and the Digital Economy to the Convener of the Local Government and Communities Committee listing the reliefs that would be abolished as a result of the repeal. Taking these reliefs out of the forecast increases NDR income by £355 million in 2024-25.

3.59 For the LBS, the repeal of section 153 means that there will not be gross income from the LBS in 2024-25. Removing this income from the forecast reduces NDR income by £128 million in 2024-25. This figure includes the

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[15] Local Government etc. (Scotland) Act 1994 (link)

[16] For a full list of reliefs affected see Scottish Government (2019) Letter from the Minister for Public Finance and the Digital Economy to Convener of the Local Government and Communities Committee – 29 November 2019 (link)

[17] See amendment 9 of Scottish Parliament (2019) Non-domestic Rates (Scotland) Bill – Marshalled List of Amendments for Stage 2 (link)

effect of the termination of LBS on our other policy costings. Table 3.8 shows the final costing.

Table 3.8: Costing for repeal of section 153

£ million	2024-25
Reliefs	355
LBS	-128
Total	226

Source: Scottish Fiscal Commission

Uncertainties around the costing

3.60 The main uncertainty comes from potential errors in our central forecast for these reliefs. This depends on the accuracy of our poundage forecasts, growth in gross income and our estimate of the effect of the new revaluation cycle starting on 1 April 2022. Any deviation in our forecasts for any of these variables will lead to a deviation in our estimate of the effect on the contributable amount in 2024-25.

Abbreviations

BGA	Business Growth Accelerator
CPI	Consumer Price Index
EPR	Empty property relief
GAAR	General Anti-Avoidance Rule
GDP	Gross Domestic Product
LBS	Large Business Supplement
NDR	Non-Domestic Rates
NDRi	Non-Domestic Rates income
NRS	National Records of Scotland
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
PCA	Provisional Contributable Amount
RV	Rateable Value
SBBS	Small Business Bonus Scheme
SFC	Scottish Fiscal Commission
SG	The Scottish Government
UK	United Kingdom

A full glossary of terms is available on our website:

http://www.fiscalcommission.scot/about-us/glossary-of-terms/

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