Non-Domestic Rates (Coronavirus)(Scotland) Bill

Islands Communities Impact Assessment (ICIA) Screening

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Scottish Government
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Introduction

The Islands (Scotland) Act 2018 places a duty on the Scottish Ministers and other relevant authorities, including a number of public authorities, to have regard to island communities in exercising their functions, and for the Scottish Ministers this will also include the development of legislation. This duty is often referred to as 'island-proofing'.

Under Section 8 of the Islands (Scotland) Act 2018 there is a requirement on relevant authorities to complete an Islands Communities Impact Assessment (ICIA) for any new policy, strategy or service which is likely to have an effect on an island community which is significantly different from the effect on other communities.

This screening document sets out how islands issues have been taken into consideration during the development of the Non-Domestic Rates (Coronavirus) (Scotland) Bill.

Non-Domestic Rates (Coronavirus) (Scotland) Bill

Non-domestic rates (NDR) are a property tax based on the rateable value (RV) of a property. RVs are based on the notional annual rental value that a property would attract in the open market and are derived from Net Annual Value (NAV). Valuations are carried out by the independent Scottish Assessors, and NAVs/RVs are updated periodically at revaluations, with the most recent being on 1 April 2017 based on rental values as at 1 April 2015. It is the Government's view that it is at revaluations that any changes in the general level of rents or valuations including those caused by general economic factors should be taken into account, rather than under the 'Material Change of Circumstances' (MCC) legislative provision allowing for changes outside of revaluation.

This Bill will clarify that in calculating the NAVs/RVs of non-domestic properties in the 2017 valuation roll, no account can be taken of any matter that is directly or indirectly attributable to coronavirus on or after 2 April 2020, this being the date the Scottish Government amended the definition of MCC to remove changes in the general level of rents under the Non-Domestic Rates (Scotland) Act 2020. This would rule out COVID-19 appeals in Scotland, such that economic changes to NAVs/RVs from COVID-19 are only considered at revaluation in order to ensure fairness to all ratepayers.

Island Communities Impact Assessment

This screening assessment has considered the potential effects of the Non-Domestic Rates (Coronavirus) (Scotland) Bill and how it impacts people living in island communities, presented below in the *Key findings* section. The findings here are based on desk research and frequent consultation with relevant public bodies including COSLA, local authorities and assessors.

We have determined that this Bill will have no significantly different or detrimental impact on island communities.

Key findings

The Islands (Scotland) Act 2018 identifies six local authorities representing island communities in Part 4 of the Act (Sections 20(2)), which are Argyll and Bute Council, Comhairle nan Eilean Siar, Highland Council, North Ayrshire Council, Orkney Islands Council, Shetland Islands Council. It should be noted that for Argyll and Bute, Highland and North Ayrshire Councils (which include mainland areas), it is not possible to break the information down to allow only their island areas to be considered separately, hence data for the whole local authority is included.

Table 1 below shows the proportion of non-domestic properties, RV and estimated net NDR income for which an appeal has been lodged since the start of the pandemic (referred to simply as ‘appeals’ below) by local authority. This shows that the proportion of premises under appeal in each of the island local authorities is lower than the proportion across Scotland as a whole. It is possible that this is because of the relatively high proportion of properties in these areas that are in receipt of non-domestic rates relief, as properties in receipt of relief may have less incentive to appeal (see Table 2).

Table 1 Unique MCC Appeals, in 2019-20 and 2020-21*

Local Authority	**Premises/ Appeals****	Total premises	% of total	**RV (£ m)**	Total RV (£ m)	% of total	**Net NDRi (£ m)*****	Total NDRi (£ m)	% of total
Argyll & Bute	1,090	9,700	11.2%	40	111	35.8%	11	29	37.6%
Highland	1,655	19,910	8.3%	120	381	31.4%	30	111	27.1%
Na h-Eileanan Siar	110	2,790	3.9%	5	27	19.0%	2	7	22.8%
North Ayrshire	705	5,445	13.0%	50	113	44.5%	13	29	47.0%
Orkney	105	2,610	4.1%	10	29	34.8%	4	9	48.9%
Shetland	105	2,385	4.4%	35	60	58.1%	17	24	69.1%
Island Authorities	3,770	42,840	8.8%	260	721	36.0%	77	208	36.9%
Scotland	49,375	256,615	19.2%	3,929	7,307	53.8%	1,117	2,114	52.8%

*The total only includes ‘unique’ appeals. As most properties appealed in both years, the figures for 2019-20 and 2020-21 cannot be added to calculate the total as this would lead to double-counting.
**The number of premises/appeals is rounded to the nearest 5.
*** Scottish Government estimates based on an analysis of data provided by the Scottish Assessors Association on appeals lodged since the pandemic in relation to 2019-20 and 2020-21, data relating to NDR reliefs awarded in 2020-21 (the 2020 Billing Snapshot System) and the valuation roll. It should be noted that ‘net NDR income’ is net of any NDR reliefs including Retail, Hospitality, Leisure and Aviation Relief.

Table 2 Proportion of properties in each island local authority receiving one or more reliefs as at 1 June 2021

Local Authority	Number of properties on the valuation roll	Number of properties receiving one or more reliefs	Proportion of properties in each local authority receiving one or more reliefs
Argyll and Bute	9,620	7,070	73%
Highland	20,180	15,640	78%
Na h-Eileanan Siar	2,810	2,190	78%
North Ayrshire	5,380	4,290	80%
Orkney Islands	2,600	2,210	85%
Shetland Islands	2,360	1,760	75%
Island Authorities	42,950	33,170	77%
Scotland	252,430	172,290	68%

Table 1 shows that in five of the six island local authorities, less than 50% of the total RV in that area is under MCC appeal. In Shetland Islands Council, 58.1% of the rateable value (which relates to an estimated 69.1% of NDR income) is under appeal. This higher figure is due to the relatively large RV associated with the petrochemical industry which is under appeal in this area.

Appeals are complex and lengthy and in the absence of case law, it is not known to what extent the impact of COVID-19 could still be deemed to be a MCC. Should these COVID-19 appeals be successful however, the outcome could impact on the level of RVs across a wide range of properties and sectors ahead of the next revaluation. This could impact on NDR bills payable and therefore on NDR income as well.

NDR income is pooled at a Scottish Government level and redistributed back to local authorities to help fund local services, including those benefiting non-domestic properties. The Scottish Government then distributes additional central government grants to each local authority according to a needs-based formula which has been agreed by the Convention of Scottish Local Authorities (COSLA) on behalf of Scotland's 32 local authorities. It also guarantees the sum of General Revenue Grant (GRG) and NDR income for each local authority. This protects local authorities from volatility in NDR income and ensures that each local authority budget is not solely determined by its revenue-raising capacity (NDR, council tax and various fees and charges for services provided by the authority). Therefore despite the relatively higher proportion of RV for premises under appeal, this is unlikely to have a direct impact on the overall level of revenue for councils, including those with island communities.

Conclusion

Our assessment has identified that the Non-Domestic Rates (Coronavirus) (Scotland) Bill is unlikely to have any significantly different impacts for island communities. The Bill aims to preserve the intended operation of the NDR system and ensure fairness to ratepayers by ensuring that market wide changes to rateable values should only be considered at a revaluation.

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The Scottish Government
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Edinburgh
EH1 3DG

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