

# **Research Project to Provide a Future Building Warrant Fee Model**

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# Executive Summary

## Introduction and Study Aims

1. Following the fire at Grenfell Tower in 2017 and other high-profile building failures, a Ministerial Working Group (MWG) was established to address issues of compliance and enforcement. This led to two review panels and the establishment of the Futures Board which is leading a programme of work to drive transformation of the building standards system in Scotland. The work of the Futures Board will have implications for the cost of delivering the verification service.
2. The purpose of this study is to develop proposals and a model that can be used to deliver a funding model that is flexible and can be adjusted to allow changes to building warrant fees in Scotland. The model should also allow for various building warrant fee components identified in the Part 1 Fees research: “Review of Building Standards Income and Level of Re-Investment in Service Delivery”.
3. The research should also identify the impact of the introduction of a devolved fees system for building standards in Scotland.

## Methodology

4. There were three main components to the research:
  - Analysis of published data and data held by BSD.
  - Stakeholder engagement.
  - Model development.

## Current Building Warrant Fees Model

5. The current building warrant fee rates were introduced in 2017 and are based on the value of work with a minimum fee (before certification discounts) of £150 for works up to a value of £5,000. Fees increase in incremental steps above the minimum fee. There are also discounts for providing a certificate of design and/or construction and fixed fees for specific warrant applications e.g. for demolition.
6. As fees are based on the value of work, there is an element of ‘inflation proofing’ within the system with the value of work, and therefore fees, increasing annually with increases in building construction costs. However, there are a number of limitations associated with the current fee rate model.
7. The model does not allow for inflation increases for the fixed fee elements and there was no allowance for inflation in the £1.5 million provided in the model for BSD. As a result, these components have lost value in real terms. For example, the fixed fee of £100 for an extension to warrant would be £123 in 2022, had it increased in line with

inflation<sup>1</sup>. The £1.5 million for BSD in 2017 would be £1.69 million in 2022, allowing for inflation.

8. The work of the Futures Board has led to several proposed changes to the verification process which are expected to have implications for the costs of delivering the verification process. The existing model however, does not readily allow for additional costs associated with delivering and strengthening the building standards service.

### **New Building Warrant Fee Model**

9. Building warrant fees must cover the future cost of delivering the service. The main costs include:

- Costs incurred by local authorities and BSD in delivering the current service.
- Additional activities which local authorities and BSD will be undertaking including greater procedural compliance.
- Costs associated with the building standards Hub which will deliver specialist services and other Futures Board initiatives.
- Costs incurred by local authorities in delivering the new compliance plan approach to high-risk buildings (HRBs).

10. The total additional funds required to deliver the building standards service in 2024/25 is estimated to be £12 to £12.8 million, depending on the assumptions made regarding the level of overheads. This is expected to rise to between £15.1 and £16.1 million in 2026/27.

11. Analysis of Local Government Financial Returns and BSD data suggests that there is some 'surplus' of funds within the building standards system which could be used to reduce the additional funds required to be raised through changes to fees. It is assumed that £1 million of funds are available in each of the forecast years. Hence, the additional amount to be raised through fees is between £11 and £11.8 million in 2024/25, rising to £14.1 to £15.1 million in 2026/27.

### **Transition from Current Fee Model**

12. Delivery of the future verification service will require additional resources and changes to legislation. A phased introduction of some of the additional activities is proposed which reduces the additional funds required in 2024/25 to between £6.2 and £6.7 million.

### **Model Results**

13. The model is based on the number of building warrant applications by value of work band, the fee per warrant and an allowance for discounts for certification. It also

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<sup>1</sup> Measured by the building cost index.

provides the user with the ability to change a number of key assumptions e.g. percentage uplift for overheads. It provides separate fee rates for HRB and non-HRB projects and has flexibility to incorporate any other components which require funding through fees e.g. formal enforcement.

14. Tables 1 and 2 set out the new fee rates for Scotland for non-HRB and HRB projects respectively, assuming a 30% overhead uplift.

<b>Table 1: New Fee Rates for Scotland for Non-HRB Projects, (30% overhead uplift)</b>						
<b>Value of Work Band</b>		<b>Current Fee, £</b>	<b>2024/25, £</b>	<b>2025/26, £</b>	<b>2026/27, £</b>	<b>% Change Current to 2026/27</b>
0-£10,000	Conversion	150	207	212	218	45.2
	Demolition	150	207	212	218	45.2
	Extension	100	138	142	145	45.2
	Zero Fee	-	-	-	-	-
	<£5000	150	207	212	218	45.2
	£5k - £10k	245	261	276	293	19.6
£10,001-£50,000	Zero Fee	-	-	-	-	-
	All Others	593	631	669	709	19.6
£50,001-£250,000	-	1,240	1,319	1,399	1,483	19.6
£250,001-£1 million	-	2,682	2,854	3,025	3,208	19.6
>£1 million	£1-£5m	7,910	8,416	8,922	9,462	19.6
	£5-10m	18,789	19,991	21,193	22,475	19.6
	£10-£25m	33,970	36,143	38,316	40,633	19.6
	£25-50m	79,509	84,595	89,681	95,105	19.6
	>£50m	142,759	151,891	161,022	170,762	19.6
Amendments	<£5k	100	138	142	145	45.2
	>£5k	435	463	491	520	19.5

Note: 2022/23 and 2023/24 have not been modelled as the existing fee rates will apply in these rates.

Inflation increases are built into the modelled fee rates.

**Table 2: New Fee Rates for Scotland for HRB Projects, (30% overhead uplift)**

Value of Work Band		Current Fee, £	2024/25, £	2025/26, £	2026/27, £	% Change Current to 2026/27
0-£10,000	-	-	-	-	-	-
£10,001-£50,000	-	593	645	699	1,222	106.1
£50,001-£250,000	-	1,240	1,350	1,461	2,063	66.4
£250,001-£1 million	-	2,682	2,919	3,161	4,390	63.7
>£1 million	£1-£5m	7,910	8,609	9,323	11,192	41.5
	£5-10m	18,789	20,450	22,144	25,346	34.9
	£10-£25m	33,970	36,973	40,036	45,099	32.8
	£25-50m	79,509	86,538	93,708	104,350	31.2
	>£50m	142,759	155,380	168,253	186,645	30.7

Note: 2022/23 and 2023/24 have not been modelled as the existing fee rates will apply in these rates.  
Inflation increases are built into the modelled fee rates.

15. The income raised by these fee rates is shown in Table 3 which assumes a phased introduction of the new fee rates for additional activities to be undertaken by local authorities and the additional work associated with HRBs.
16. Sub-national analysis was undertaken for five area types – urban, primarily urban, mixed, primarily rural and very rural/island. Urban and very rural/island areas tend to have rates which are below the national level. This reflects a ‘surplus’ of funds already in the system in urban areas and relatively stable staff numbers in both areas. The highest rates were in primarily rural areas which is a reflection of no system ‘surplus’ and a forecast increase in staff of 17%.

**Table 3: Fee Income Raised by Component, Scenario 1 (30% overhead uplift), £m**

<b>Income from:</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Current fee rates	36.227	36.227	36.227
Inflation to fixed fees rates	0.776	0.846	0.918
Inflation drag (non-fixed rates)	(4.246)	(5.207)	(6.192)
Extra fee existing LA/BSD activities	5.503	6.871	8.287
Extra fee additional LA activities	-	1.696	3.515
Extra fee for Hub	0.930	1.014	1.098
Extra fee for HRBs	0.271	0.561	2.199
<b>Total Income Before Certification Discount</b>	<b>39.461</b>	<b>42.009</b>	<b>46.052</b>
Certification Discount	2.637	2.703	2.770
<b>Total Income Post Certification Discount</b>	<b>36.824</b>	<b>39.306</b>	<b>43.281</b>

Note: The income raised from inflation drag reduces the amount of additional funds required to be raised from increased fee rates as extra fees will be delivered.

## **Enforcement**

17. The analysis considered the extent to which soft enforcement is undertaken by authorities. There are a number of situations where verifiers undertake enforcement work for which no fee or revenue grant is provided. For example, investigating unauthorised work but no unauthorised work has been undertaken or trying to resolve dangerous building situations before formal notice procedures are required.
18. For work related to deviation or non-compliance with a building warrant application, there is also a lack of clarity around the boundary between soft enforcement and providing a good verification service by keeping the applicant on the correct track.
19. Data from one local authority suggests that approximately 10% of inspections are for non-compliance purposes, but most authorities are unable to provide any evidence of the prevalence of soft enforcement or the time spent on soft enforcement. However, authorities felt that soft enforcement is very resources intensive.



## **Devolved Fee Setting**

20. The research considered options for a fully and partially devolved fee system for building standards. Three options were considered:
  - Option 1: Full devolution of fees.
  - Option 2: Partial devolution through national guidance.
  - Option 3: Partial devolution through deviation from national fee structure.
21. The advantages and disadvantages of these options are:
  - Option 2 would be the most complex as there would be a mix of national and local rates. The complexity of establishing the full cost of the verification service should not be underestimated.
  - All options where complete local fee structures are introduced would lead to costs for authorities in terms of designing their fee structure and setting fee levels.
  - All options would require legislation to be amended and created to enable devolved fees.
  - Any system where there are different fees in different local areas has the potential to create complexity for those users who operate across different authorities.
  - All options offer, to some extent, the ability to reflect local circumstances. Options 1 and 2 perform better on this measure.
22. There are no specific impediments or factors that would make the introduction of a devolved system inherently difficult. The Scottish Government would have to decide how far it needs to set parameters around the scope for authorities to set fees within an overall cost recovery framework.
23. There would have to be oversight of fee setting by Scottish Government to ensure that the overall level of fees raised were reasonable compared to the cost of providing the service. Guidance and/or legislation would be required.
24. A devolved fee system might make it more complicated to fund central services e.g., the Hub and users operating across several authorities may find different fees to be complicated.

# 1. Introduction

## 1.1 Introduction

- 1.1.1 In July 2017 there was a change to building standards fee levels. The objective of the change was to increase income from building warrants and associated fees paid by users of the building standards system to achieve full cost recovery for verification. The fee increase also provided an alternative funding mechanism to cover the building standards related running costs of the Scottish Government Building Standards Division (BSD).
- 1.1.2 Following the fire at Grenfell Tower in 2017 and a number of high-profile building failures, a Ministerial Working Group (MWG) was established to address issues of compliance and enforcement. The MWG was supported by two review panels, one addressing fire safety and the second addressing compliance and enforcement. The Building Standards Futures Board was established to provide direction and guidance on the implementation of the recommendations made by the review panels. The Board is leading a programme of work under seven work streams which are interlinked and collectively aim to drive transformation of the building standards system in Scotland.
- 1.1.3 The work of the Futures Board will have implications for the cost of delivering the verification service. The purpose of this study is to develop proposals and a model that can be used to deliver a funding model that is flexible and can be adjusted to allow changes to the building warrant fees in Scotland and to allow for various building warrant fee components to support changes identified in the Part 1 Fees research.
- 1.1.4 An objective of the research was also to identify the impact of the introduction of a devolved fees system for building standards in Scotland. The advantages and disadvantages of options for both a full and partial devolved fee system are considered.

## 1.2 Study Aims

- 1.2.1 The brief sets out very specific objectives under four stages of work:

### Stage 1: Review

- Review and consider if the current fee setting model is still appropriate for local authority building standards service.
- Review and consider if the indicative 30% above verification staff costs requirement in KPO5 is still an appropriate overhead figure for local authorities.
- Review the appropriateness of the current fee model for High-Risk Buildings (HRBs), including the introduction of pre-application assessments and the proactive monitoring of HRBs including staged warrant inspections.

## **Stage 2: Fee Modelling**

- On the basis that additional funding is needed, expand the initial modelling options provided in Fees Research Part 1, and provide options for a flexible funding fee model. This is to ensure that where there is a need to make changes to the fee levels in the future the model developed should be able to accommodate change.
- Provide a model that will be easily adjusted to take account of the following potential changes to the building standards system:
  - Building Standards Hub.
  - Learning and Digital Development.
  - Digital Transformation.
  - Introduction of Compliance Plan Manager.
  - Other fee components e.g. soft enforcement.
- Identify additional building standards services that could attract a charge e.g. failed visits where re-inspection is required.
- Certification:
  - Consider the effect on local authority fee income where certification is used.
  - Identify the present-day value of the current fixed certification discounts and consider how these should be inflation proofed.

## **Stage 3: Enforcement**

- Review resourcing required for verifiers to undertake soft enforcement activities leading to formal enforcement, and consider the resourcing needed to carry out such activities, in both the current and proposed system.
- Consider sufficiency of the current Grant Aided Expenditure (GAE) given to 32 local authorities to carry out formal enforcement duties.
- Consider the resource needed for a new post-CC enforcement power.
- Review and consider how soft enforcement can be more effective through increasing fees.
- Review how fees for late CC's and BW's can be strengthened to discourage starting work without building warrant approval.
- Consider a 'Penalty Fee' for starting work after an application has been submitted but before a warrant is issued and consider how this can be applied.

## **Stage 4: Funding Mechanisms**

- Review and consider if the current funding mechanism used to provide funding to support BSD's central national services is still suitable taking into account the work of the Futures Board workstreams. Make suggestions on an appropriate mechanism to maintain resources, over time, for BSD.
- Consider uplift mechanisms for local authority building warrant fees, including fixed fees (fees accelerator, annual uplift etc.).
- Consider options for a partially devolved fees framework for local authorities.
- Consider options for a fully devolved fees framework for local authorities.

## **1.3 Methodology**

1.3.1 There were three main components to the research:

- Analysis of published data and data held by BSD.
- Model development.
- Stakeholder engagement including:
  - An online survey of Scottish local authorities.
  - Consultations with finance and licensing departments in a selection of local authorities.
  - Consultations with building standards departments regarding enforcement.
- Model development.

1.3.2 The analysis of BSD data was undertaken to gather information for inclusion in the new model. This included data on the number of building warrant applications, fee income associated with these applications, the cost of delivering the verification service and details of the number of certificates of design and construction.

1.3.3 Analysis of data from the Local Financial Returns (LFRs) was undertaken to inform some assumptions in the model. A review of fees for different licenses (e.g. Houses of Multiple Occupation (HMO) and Short-Term Lets (STL)) was also undertaken to support the consideration of devolved fee setting. This data was supplemented by discussions with a selection of finance and licensing departments.

1.3.4 An online survey of all 32 authorities was undertaken with 12 authorities responding. This represents a response rate of 38%. The survey sought to gather opinion on the following topics:

- Additional charges.
- Strengthening compliance.

- Soft enforcement.
- Grant aided expenditure for formal enforcement/statutory duties.
- Certification.
- Funding mechanisms.

1.3.5 A building warrant fee model has been developed which will allow fees to be estimated for a three year period (2024/25 to 2026/27). The model also has the flexibility for BSD to vary some of the key inputs.

## **1.4 Report Structure**

1.4.1 The report is organised as follows:

- Section 2 reviews the current model for setting fees for building warrants to consider if it is still appropriate for local authority building standards services.
- Section 3 sets out the structure of the future model for building warrant fees.
- Section 4 considers if there is any 'surplus' of funds within the current building standards system.
- Section 5 sets out the results for future fee rates.
- Section 6 reviews the key inputs and assumptions underpinning the model.
- Section 7 considers matters relating to enforcement.
- Section 8 considers the options for devolving building warrant fees to individual local authorities.

## **2. Review of Current Model of Building Warrant Fees**

### **2.1 Current Building Warrant Fees**

2.1.1 The building warrant fee in Scotland is based on the value of work with a minimum fee (before certification discounts) of £150 for works with a value of work of up to £5,000. The fees increase in incremental steps above the minimum fee to a fee of £4,874 for projects with a value of work of £950,000 to £1 million and then in increments of £253 for every £100,000 (or part thereof).

2.1.2 Certificates of design attract discounts of between £30 and £100 on projects up to £100,000 and thereafter the discount is 10% of the fee. Certificates of construction operate on a similar basis with a discount of £15 to £35 on projects up to £100,000 and thereafter a discount of 3% of the fee.

2.1.3 There are also several other fees including:

- Fixed fees for other warrant applications including those for demolition or conversion with no building works and some amendments to warrants.
- Fees which are 200% or 300% of the normal fee where applications are received for a building warrant where work has already started or a completion certificate submission is made without a warrant.

### **2.2 Advantages of the Current Fee Structure**

2.2.1 One of the advantages of the current structure is that it is relatively simple with value of work being the key determinant of the application fee. The system is also well established, understood by customers and is based on national fee rates. For example, a £1 million project will attract the same fee regardless of where in Scotland the project is located.

2.2.2 As fees are based on the value of work, there is an element of 'inflation proofing' within the system with the value of work, and therefore fees, increasing annually with increases in building construction costs.

### **2.3 Disadvantages of the Current Fee Structure**

2.3.1 There are a number of disadvantages of the current system including:

- No inflation increases for fixed fees.
- Establishing the cost of delivering the verification service.
- Limitations on incorporating new activities into the structure.

## Fixed Fees and Inflation

- 2.3.2 Although there is an element of ‘inflation proofing’ within the system for warrants based on the value of work, there are a few application types which attract a fixed fee including fixed fees for conversion only, demolition only and extensions to warrant. Discounts for certificates of design and construction are also fixed for values of work up to £100,000. For these fixed fee warrants and discounts, there is nothing within the model to address inflation and these have remained at their original level since the fee rates were introduced in 2017.
- 2.3.3 The headline measure of inflation in the UK is the consumer price index (CPI) which rose by 19.2%<sup>2</sup> between 2017 and 2022. Inflation in the construction sector can also be measured by the building cost index (BCI). Table 2.1 provides a summary of the effects of inflation on the fixed fee building warrants and selected fees for certificates of design and construction between 2017 and 2022 using the CPI and BCI indices.
- 2.3.4 If the fixed £100 and £150 warrant fees had kept pace with inflation between 2017 and 2022, they would have risen to £119 and £179 respectively in 2022 using the CPI and to £123 and £184 if the BCI had been used. Hence, for fixed fee applications, there has been an erosion in the value of fees in real terms since 2017. The effects of inflation should be considered in the new model.

	2017 Fee Rate	2022 Fee Rate Including Inflation	
		CPI	BCI
Warrant for conversion or demolition only	150	179	184
Extension to warrant	100	119	123
Certificates of Design			
<£5,000 value of work	30	36	37
£10 to £15,000 value of work	50	60	61
£50 to £100,000 value of work	100	110	123
Certificates of Construction			
<£5,000 value of work	15	18	18
£10 to £15,000 value of work	20	24	25
£50 to £100,000 value of work	35	42	43

<sup>22</sup> Q4 2017 to Q4 2022.

2.3.5 In addition to funding the local authority verification process, the 2017 fees increase also incorporated an element of funding for BSD of £1.5 million. This was to ensure that building warrant fees covered the building standards related running costs of BSD at that time. This level of funding has not been reviewed since 2017 and the current structure does not easily support an amendment to this level if required. As the funding for BSD relates primarily to staff costs, inflation between 2017 and 2022 has been measured using average earnings changes in the public sector. This implies that £1.5 million of funds in 2017 would be equivalent to £1.69 million in 2022.

### **Establishing the Current Cost of the Verification Service**

2.3.6 The building warrant fee should cover all the costs incurred by local authorities associated with the verification process. This should include general overheads which are usually apportioned to local authority departments by finance teams. Key Performance Outcome 5 (KPO5) adopts an uplift factor of 30% to allow for these costs. This is based on work from 2012 and the appropriateness of this figure should be considered.

### **Incorporating the Cost of New Futures Board Activities**

2.3.7 The work of the Future Board has led to several important developments which are proposed for the verification process. These proposed changes are expected to have implications for the costs of delivering the verification service and include:

- A new compliance plan approach for all building warrant applications (including a compliance plan manager (CPM) and additional processes for high-risk buildings (HRBs).
- Enhanced enforcement and post completion certificate activities/powers.
- The building standards Hub which will offer services and deliver Futures Board projects on learning and development and digital transformation.

2.3.8 The existing fee structure and model does not readily allow for any additional costs associated with delivering and strengthening the verification service to be included. For example, costs associated with a building standards Hub. Costs specific to HRBs are considered in Section 2.4.

2.3.9 The 2017 increase in fees sought to better align the fee received from the application with the cost of verification work as it was felt that, at the lower end of the value of work scale, the fee received rarely covered the cost of verification. Feedback from authorities in the Part 1 research suggested that applications at the minimum fee and lower value of work bands continue to fail to cover their verification costs. The Part 1 research also identified an issue with applications with relatively low fees which are not accompanied by certificates of design. Examples were provided of projects where the cost to the local authority of using external providers (e.g. to check structural calculations in the absence of a structural certificate) was greater than the fee received.



2.3.10 This raises an issue of whether the fee structure should allow for additional charges for certain tasks e.g. use of a specialist service, or where applicants do not follow the Technical Handbooks guidance and additional verifier verification work is required. A model structure which allowed authorities to charge for certain services may help align the fee received with the cost of verification for minimum fee level and lower value of work projects.

## **2.4 High Risk Buildings**

2.4.1 High Risk Buildings (HRBs) are defined as:

- Domestic buildings or residential buildings with any storey at a height of more than 11 metres above the ground.
- Educational establishments (schools, colleges and universities), community sports centres and non-domestic buildings under local authority control/where they have an interest in the building.
- Hospitals.
- Residential care buildings.

2.4.2 Following the Compliance and Enforcement Consultation, it is expected that the requirement for a compliance plan and a Compliance Plan Manager (CPM) will be introduced for HRBs. The compliance plan must be agreed at the outset of every project and will be used to demonstrate, through the collection of evidence and documentation, how the risk of non-compliance has been minimised and that the verifiers reasonable inquiry requirements have been met. The CPM will be appointed on behalf of the relevant person and will be responsible for the compliance plan.

2.4.3 Preparation of the compliance plan will involve a pre-application discussion process with the local authority verifiers and an approved in principle compliance plan will accompany the subsequent building warrant application. The compliance plan will set out the verification inspections or checks required during the construction phase and the evidence which will be required to support the signing and submission of the completion certificate.

2.4.4 The current fee model treats all projects with the same value of work as equal in terms of the building warrant fee i.e. a £4 million supermarket would pay the same fee as a £4 million school, although the latter would be classed as a HRB and could require more verifier involvement through the compliance plan process.

2.4.5 If additional funds are required by local authorities to discharge their compliance plan duties, the current fee structure would require that the additional funds are spread over most value of work bands. There is no option to add a specific charge (e.g. for a pre-application meeting or additional inspections) to the basic warrant fee. This will result in all users of the system paying for some of the compliance and enforcement costs which are only incurred by HRB projects (which represent a small proportion of projects).

2.4.6 Revising the current structure to include a separate fee structure for HRBs would allow the increase in fees to cover the additional costs of the compliance plan to be restricted to the projects where the requirements for verification work will be more onerous.

## **2.5 Conclusions**

2.5.1 It is concluded that the current fee model may not serve the requirements of the building standards verification service in the future. The model is unable to add charges for specific services and the introduction of compliance plans for HRBs cannot be targeted at the projects which incur the additional costs. It is also anticipated that, over time, the strengthened compliance procedures for HRBs will be tailored to non-HRB projects which will have an impact on the work of verifiers across the system.

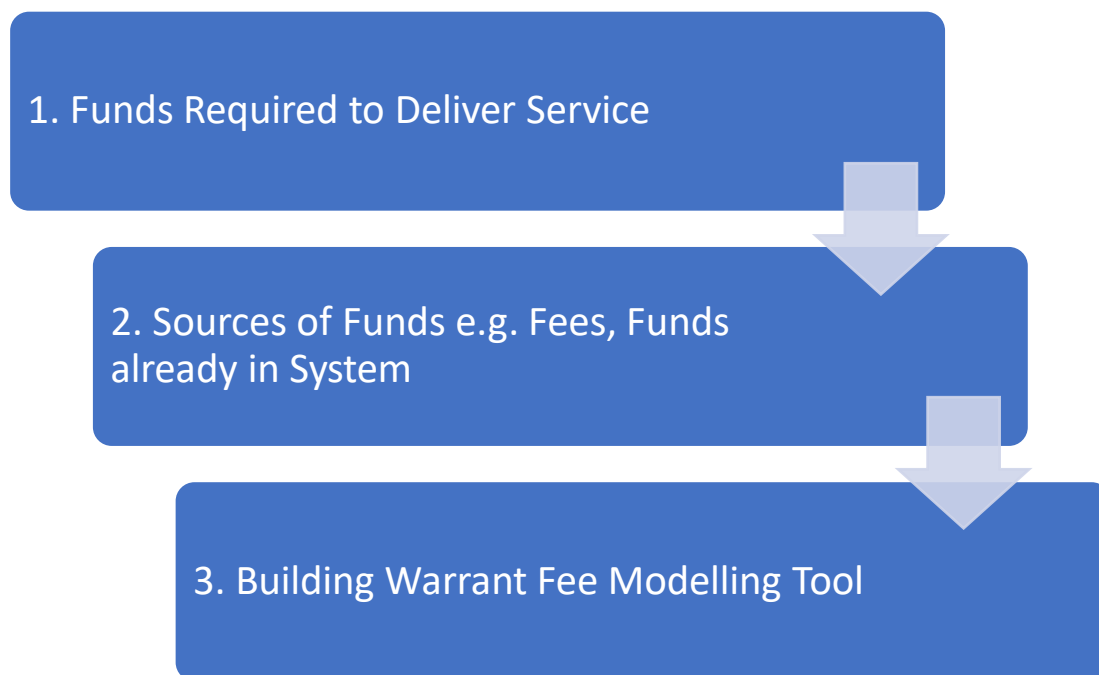
2.5.2 The current model established a set of fee rates for 2017. The fee rates which are based on value of work contain an element of inflation proofing, but the fixed fee elements have lost value in real terms since 2017.

## 3. New Building Warrant Fee Model

### 3.1 Introduction

3.1.1 There are three main building blocks to the new building warrant fee model which are shown in Figure 3.1.

**Figure 3.1: Building Blocks of Building Warrant Fee Model**



3.1.2 The first stage of the model is to estimate the total cost of delivering the verification service including future changes arising from the work of the Futures Board. The future costs will cover the three-year period 2024/25 to 2026/27.

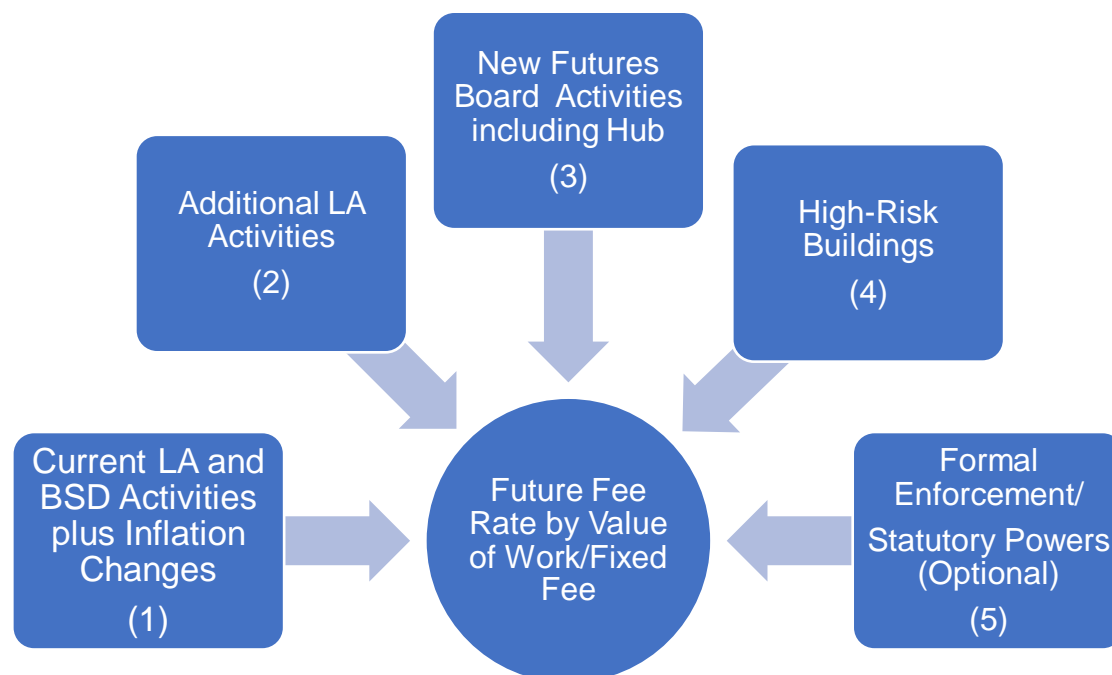
3.1.3 The second stage of the process must identify if all of the costs have to be covered through changes (i.e. increases) to the fee rates or if there are any other sources of funding available e.g. any 'surplus' funds in the system.

3.1.4 The final stage of the process is the development of the modelling tool which will be used to determine future fee rates.

### 3.2 Components of the Building Warrant Fee Model

3.2.1 Building warrant fees have to cover, as a minimum, the future cost of delivering the verification service. The main components of the services are shown in Boxes 1 to 4 in Figure 3.2. The model needs to have the flexibility to include the costs of formal enforcement or statutory duties if these costs require to be covered by building warrant fees (Box 5 in Figure 3.2).

**Figure 3.2: Components of Building Warrant Fees Model**



**Box 1: Current LA and BSD Activities plus Inflation Changes**

3.2.2 The first component of the model is the fee rates associated with delivering the current verification service. This includes current local authority verification activities and support provided by BSD<sup>3</sup>. As the model has to estimate future costs, an inflation adjustment has been applied to the current cost of delivering the verification service. Inflation adjustments have been made to the fixed fee component of costs and discounts and the BSD element of funding to bring these costs from 2017 to 2022 prices. Future inflation adjustments have also been made. An allowance has also been made for additional funding for BSD in the future years to cover the costs of auditing local authority verifiers and certifiers, enhanced performance and monitoring of the implementation of the strengthened building standards system for Ministers, ongoing support for workforce development, Compliance Plan implementation and to support digital transformation.

**Box 2: Additional Activities for Local Authorities**

3.2.6 The second component covers any additional activities which authorities will be undertaking for non-HRB projects as a result of the work of the Futures Board. Additional activities which could add to their cost base include:

- Greater procedural compliance through authorities receiving more CCNP notifications and stricter compliance procedures which could increase workload.

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<sup>3</sup> The 2017 fees increase incorporated £1.5 million for BSD activities related to verification.

- Increased soft enforcement to ensure compliance (considered further in Section 7).
- Potential post completion certificate (CC) changes/powers which would enable local authorities to intervene in matters following submission of the CC.

### **Box 3: Futures Board Activities**

3.2.7 The third component relates to activities emerging from the Futures Board which require additional financial support. One of the key changes will be the establishment of a central building standards Hub. The Hub will deliver some of the building standards system services previously undertaken by LABSS, provide access to specialist services and develop and co-ordinate other Futures Board recommendations around learning and development and digital transformation.

### **Box 4: High Risk Buildings (HRBs)**

3.2.8 The fourth component of the model covers the costs to verifiers of the new compliance plan approach to HRBs. This will place an additional cost burden on local authorities including additional costs to cover:

- Pre-applications meetings with the CPM and applicant.
- Pro-active enforcement to check that:
  - work has not started before approval of the warrant (at each warrant stage); and
  - the building is not occupied or in use without permission.
- Potential additional site visits/verification work in line with the compliance plan.

### **Box 5: Formal Enforcement/Statutory Powers**

3.2.9 Building standards departments also fulfil a number of statutory duties including formal enforcement and maintaining the building standards register. These activities are currently intended to be funded by a revenue grant from the Scottish Government. The model will offer the flexibility to include the costs of statutory duties, should the decision be taken that they need to be recovered through fees.

## **3.3 Funds Required to Deliver the Verification Service**

3.3.1 Table 3.1 provides a summary of the current (2021/22) and future costs of the existing verification service. It covers the costs incurred by local authorities and the funding for BSD activities related to building standards. The local authority costs are broken down by verification staff costs and overhead costs. Within KPO5, overhead costs are assumed to be a 30% uplift to verification staff costs.

3.3.2 The appropriateness of the 30% uplift has been reviewed during this research with the analysis presented in Section 6.2. This analysis shows that 30% may be slightly high as an uplift factor and that 20% may be more appropriate. Table 3.1 also

provides a summary of current and future costs of the existing verification service if overhead costs are assumed to be 20% of staff costs.

3.3.3 To estimate the future cost of local authority verification services, information from BSD's workforce supply and demand return has been used. The data show that between July 2021 and July 2024, the number of building standards staff is forecast to increase by 49 from 632 to 681. A further increase of 8 is anticipated between 2024 and 2026.

3.3.4 The future cost of the local authority verification service has been estimated using the following assumptions:

- 681 and 689 building standards staff are required for 2024/25 and 2026/27 respectively.
- Verification staff numbers are estimated by assuming 88%<sup>4</sup> of local authority staff time will be spent on verification activities.
- Average building standards staff costs are increased by 5.4%<sup>5</sup> between 2021/22 and 2022/23 and by 3% per annum thereafter.
- Overhead costs are shown for two scenarios representing 20% and 30% of staff costs.

3.3.5 The increase in staff costs between 2021/22 and 2024/25 is considerable and reflects the increase discussed in paragraph 3.3.3. It is assumed that the forecast additional workload is primarily required to deliver the current service i.e. it is not the forecast increase required to deliver new future activities. The increase in costs also assumes that building standards salaries increase in line with inflation.

3.3.6 The level of funding required for BSD building standards activities is also included in the Table. Inflation adjustments have been made to bring the 2017 funding level (£1.5 million) to current prices. A further allowance has been made for future inflation and for the potential cost of future auditing/monitoring<sup>6</sup>.

3.3.7 In 2024/25 the total cost of providing the existing verification service is estimated to increase to almost £38.6 million and then rise to £41.3 million in 2026/27 if overheads are assumed to be an uplift of 30% of staff costs.

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<sup>4</sup> Verification staff costs are almost 88% of total building standards costs in 2021/22.

<sup>5</sup> Public sector average earnings increase of 5.4% between January 2022 and January 2023. Public sector average earnings change between January 2017 and January 2022 is 3.1%. An average of 3% has been adopted for future years.

<sup>6</sup> It is assumed that every local authority would be audited once during the three-year period and that there will be enhanced monitoring of the strengthened building standards system. An allowance of £300,000 per annum has been incorporated into the costs required for BSD to facilitate this process.

**Table 3.1: Current and Future Costs of Local Authorities Verification Service and BSD Costs £m**

<b>30% Overhead Uplift</b>	<b>2021/22</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
LA Verification Costs:				
- Staff costs <sup>3</sup>	23.363 <sup>1</sup>	27.989 <sup>2</sup>	28.998 <sup>2</sup>	30.043 <sup>2</sup>
- Overheads – 30%	7.009	8.397	8.700	9.013
- Total	30.372	36.386	37.698	39.056
BSD Costs	1.688	2.177	2.233	2.291
<b>Total Existing Activities</b>	<b>32.060</b>	<b>38.563</b>	<b>39.931</b>	<b>41.347</b>
Extra cost relative to 2021/22	-	6.503	7.871	9.287
<b>20% Overhead Uplift</b>				
LA Verification Costs:				
- Staff costs <sup>3</sup>	23.363 <sup>1</sup>	27.989 <sup>2</sup>	28.998 <sup>2</sup>	30.043 <sup>2</sup>
- Overheads – 20%	4.673	5.598	5.800	6.009
- Total	28.036	33.587	34.798	36.051
BSD Costs <sup>3</sup>	1.688	2.177	2.233	2.291
<b>Total Existing Activities</b>	<b>29.724</b>	<b>35.764</b>	<b>37.032</b>	<b>38.343</b>
Extra cost relative to 2021/22	-	6.040	7.308	8.619
Notes:				
1: Data from KPO5 return to BSD for 2021/22.				
2: Based on medium term (2024) and long term (2026) workforce demand data from BSD.				
3: Includes inflation increases.				

3.3.8 If the overhead uplift is reduced to 20%, the estimated cost of delivering the existing verification service in 2024/25 is £35.8 million, rising to just over £38 million in 2026/27. Hence, the effect of reducing the overhead uplift to 20% reduces the cost of providing the existing verification service by £3 million.

3.3.9 Table 3.2 provides a summary of the costs associated with boxes 2 to 4 in Figure 3.2 for both the 20% and 30% uplift assumption. These are costs which are not currently incurred and have been estimated as follows.

3.3.10 Box 2 – Additional Local Authority Activities: The Part 1 research found that 75%<sup>7</sup> of respondents to the survey felt that more CCNP notices would add between 10 to 50% to their workload. Adopting the midpoint of this range (30%) and applying it to the non-plan checking element<sup>8</sup> of verification workload<sup>9</sup> yields an estimate of an additional cost of £3.3 million in 2024/25 which rises to £3.5 million in 2026/27. This is based on the 30% uplift.

3.3.11 If the overhead uplift is assumed to be 20%, the cost of these additional activities is estimated to be £3 million in 2024/25, rising to £3.2 in 2026/27.

3.3.12 Box 3 – Future Board Activities including the Hub: The cost of delivering Futures Board activities (including the Hub and initiatives to be handled by the Hub) are estimated from the Business Case Report (BCR) for the Hub. The cost of the Hub and associated activities is estimated to increase from £0.9 million in 2024/25 to £1.1 million in 2026/27.

3.3.13 Box 4 – HRBs: The compliance plan approach to HRBs will also add to local authority costs. Section 6.3 considers the potential additional costs associated with HRBs in detail with a summary included in Table 3.2. The costs associated with HRBs are estimated to be approximately £2.2 million per year if overheads are assumed to be a 30% uplift. If overheads are assumed to be 20%, HRB costs are slightly lower at £2.1 million.

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<sup>7</sup> 12 of 16 responses.

<sup>8</sup> Plan checking is assumed to be 70% of a verifiers time and inspection/reasonable inquiry is 30%.

<sup>9</sup> Based on an overhead uplift of 30%.



<b>Table 3.2: Future Costs of Additional/New Verification Activities, £m</b>				
<b>30% Overhead Uplift</b>	<b>2021/22</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Additional LA Activities	-	3.275	3.393	3.515
FB Activities including Hub	-	0.930	1.014	1.098
High Risk Buildings	-	2.119	2.158	2.199
<b>Total Cost of New Activities</b>	-	<b>6.324</b>	<b>6.565</b>	<b>6.812</b>
<b>20% Overhead Uplift</b>				
Additional LA Activities	-	3.023	3.132	3.245
FB Activities including Hub	-	0.930	1.014	1.098
High Risk Buildings	-	2.036	2.072	2.109
<b>Total Cost of New Activities</b>	-	<b>5.989</b>	<b>6.218</b>	<b>6.452</b>

3.3.14 All costs for each future year in the model can be changed by BSD by amending some of the key assumptions e.g. the percentage uplift to workload for additional local authority activities, the proportion of time spent on plan checking and other inspection/reasonable inquiry.

3.3.15 The costs associated with additional local authority activities and HRBs are both affected by the assumptions regarding overheads. Using the 30% uplift assumption the total cost of future new activities is estimated to be £6.3 million in 2024/25, raising to £6.8 in 2026/27. The costs are slightly lower with the 20% overhead assumption - £6 million in 2024/25, rising to £6.5 in 2026/27.

### **3.4 Current and Future Costs of Verification Service**

3.4.1 Combining the future costs in Tables 3.1 and 3.2 shows that the cost of providing the verification service, as envisaged, in the future is estimated to be almost £44.7 million in 2024/25 (an extra £12.6 million or 39%) rising to almost £48 million in 2026/27. Details are shown in Table 3.3. The majority of additional costs relate to the resources required to deliver the existing verification service (i.e. existing LA/BSD activities).

<b>Table 3.3: Total Future Costs of Verification Service, £m (30% Overhead Uplift)</b>				
	<b>2021/22</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Box 1: Existing LA/BSD Activities	32.060	38.563	39.931	41.347
- additional costs over 2021/22		6.503	7.871	9.286
Box 2: Additional LA Activities	-	3.275	3.393	3.515
Box 3: Futures Board Activities including Hub	-	0.930	1.014	1.098
Box 4: High Risk Buildings	-	2.119	2.158	2.199
<b>Total Cost Future Activities</b>	<b>32.060</b>	<b>44.887</b>	<b>46.496</b>	<b>48.159</b>
<b>Total Additional Funds</b>	<b>-</b>	<b>12.827</b>	<b>14.436</b>	<b>16.099</b>

3.4.2 Table 3.4 provides the total cost of the providing the verification service using the 20% overhead uplift assumption. The Table shows that while the absolute costs are lower in Table 3.4, the additional funds required are broadly similar – only £1 million lower in 2026/27.

<b>Table 3.4: Total Future Costs of Verification Service, £m (20% Overhead Uplift)</b>				
	<b>2021/22</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Box 1: Existing LA/BSD Activities	29.724	35.764	37.032	38.343
- additional costs of 2021/22		6.041	7.308	8.619
Box 2: Additional LA Activities	-	3.023	3.132	3.245
Box 3: Futures Board Activities including Hub	-	0.930	1.014	1.098
Box 4: High Risk Buildings	-	2.036	2.072	2.109
<b>Total Cost Future Activities</b>	<b>29.724</b>	<b>41.753</b>	<b>43.250</b>	<b>44.795</b>
<b>Extra Funds Required</b>	<b>-</b>	<b>12.030</b>	<b>13.526</b>	<b>15.071</b>

## 4. Sources of Funds and Transition from Current Fee Model

### 4.1 Introduction

- 4.1.1 As discussed in paragraph 3.2.9, the statutory elements of the building standards service are intended to be funded from the general revenue grant provided to local authorities from the Scottish Government rather than from fees. The level of this funding has been £5.3 million since before the last fees increase.
- 4.1.2 The verification service should be funded from building warrant fees and Table 3.3 and 3.4 showed that the future cost of delivering the service in 2024/25 is estimated to be between £41.8 and £44.9 million. This represents an increase of £12.0 to £12.8 million over 2021/22 costs.
- 4.1.3 One key question for the research is whether the additional funds required for 2024/25 have to be fully financed from fees or whether there is some 'surplus' in the system at present which can help towards these additional costs. It should be noted that some of the increase will be funded from 'inflationary drag'. This will occur as general increases in building costs push some building warrant applications into a higher value of work band and therefore incur a higher building warrant fee. This is considered further in the model in Section 5.

### 4.2 Building Standards Income and Expenditure

- 4.2.1 The Scottish Local Government Financial Statistics (SLGFS) provide a comprehensive overview of the financial activity of Scottish local authorities. Table 4.1 shows the trend in building standards income and expenditure for Scotland over the period 2017/18 to 2021/22. Income from building standards was greater than expenditure in all years, except 2020/21 when the figures were in balance.

	<b>Income</b>	<b>Expenditure</b>	<b>Surplus/(Deficit)</b>
2017/18	36.1	33.9	2.2
2018/19	40.9	38.9	2.0
2019/20	41.1	36.3	4.8
2020/21	35.4	35.4	0.0
2021/22	38.2	34.9	3.3

Source: SLGFR various years

- 4.2.2 The Table shows that for Scotland, the total cost of the building standards service is met by the fees from building warrants. The expenditure on building standards in Scotland in Table 4.1 includes the cost of delivering the verification service, local

authorities statutory role and other services carried out by the building standards department.

- 4.2.3 BSD collect more detailed information on verification income and expenditure. Table 4.2. provides a summary of building warrant fee income and verification costs in Scotland for the period 2017/18 to 2021/22. Verification costs are estimated as verification staff costs plus 30% as per KPO5.

<b>Table 4.2: Verification Income and Costs in Building Standards, Scotland, £m</b>			
	<b>Income</b>	<b>Costs<sup>1</sup></b>	<b>Surplus/(Deficit)</b>
2017/18	32.1	26.7	5.4
2018/19	35.0	27.2	7.8
2019/20	36.6	29.2	7.4
2020/21	35.2	29.5	5.7
2021/22	35.4	30.4	5.0

Source: BSD Quarterly Returns  
1. Verification staff costs plus 30%.

- 4.2.4 Building warrant fee income (Table 4.2) averages approximately 90% of gross service income (Table 4.1). Gross service income includes income related to non-verification activities (e.g. income from licensing work, safety at sports ground, copy plans etc.) while BSD return data is fee income related only to building warrants.
- 4.2.5 Table 4.2 suggests that there is approximately £5 million of “surplus” fee income ‘in the system’ which could potentially be used to cover any increase in costs associated with delivery of the service in the future.
- 4.2.6 However, as stated in paragraph 4.1.1 local authorities receive £5.3 million in revenue grant to cover building standards statutory duties. Since 2018/19 the amount received from Scottish Government has been reduced (or top sliced) by £1.5 million to £3.8 million, with the 2017 increase in fee rates providing the outstanding £1.5 million. This downward adjustment was to release £1.5 million of funding for BSD building standards related activities following the 2017 fees increase.
- 4.2.7 The Part 1 research found that 81%<sup>10</sup> of authorities responding to the survey stated that their building standards department does not receive any GAE income. Only three respondents (19%) reported receipt of this income from their authorities although two of the responses were qualified. One respondent was ‘not aware’ of

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<sup>10</sup> 13 of 16 respondents.

receiving the funds while another was not able to confirm the position with the finance team.

4.2.8 It is estimated<sup>11</sup> that the staff costs of non-verification activities in local authorities is £3.2 million in 2021/22. Whilst non-verification activities will primarily be statutory duties, some authorities also have to fund activities related to licensing and safety at sports grounds from their fee income. Table 4.3 takes the surplus fee income from Table 4.2 above and sets out the costs of non-verification activities to determine whether there is sufficient fee income to cover all the costs of the building standards service.

<b>Table 4.3: Verification Income Surplus/(Deficit) and Non-Verification Costs for Building Standards, Scotland, £m</b>			
	Fee Income Surplus/(Deficit)	Non-Verification Costs <sup>1</sup>	Overall Surplus/(Deficit)
2017/18	5.4	4.2	1.2
2018/19	7.8	4.4	3.4
2019/20	7.4	4.9	2.5
2020/21	5.7	4.8	0.9
2021/22	5.0	4.2	0.8

Source: BSD Quarterly Returns  
1. Non-verification staff costs plus 30%.

4.2.9 Table shows that building standards fee income has been sufficient over the last five years to cover the total cost of the service, although the surplus of income has reduced considerably since 2019/20. The average surplus over the five year period is £1.75 million.

4.2.10 This suggests that there is some 'surplus' in the system which could be used to fund some of the additional costs identified in Tables 3.3 and 3.4. While Table 4.3 shows that the average surplus over the five year period was £1.75 million, the last two years have returned a much lower surplus. The modelling assumes that there is £1 million already in the system which can be used to fund some of the additional costs of the building standards service in future years. This level of surplus can be changed in the model.

4.2.11 The assumed level of surplus has been used to reduce the additional funds required to deliver the existing verification service i.e. Box 1 in Figure 3.2 which covers existing local authority and BSD activities.

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<sup>11</sup> The difference between total staff costs and verification staff costs.

### 4.3 Transition from Current Fee Model

4.3.1 While the surplus of fee income currently in the system can reduce the amount of funds required to run the service in the future, the increase in funds between 2021/22 and 2024/25 is still substantial - £11.8 million with the 30% overhead uplift and £11 million with the 20% overhead uplift.

4.3.2 To deliver this additional funding will require a 'step-change' in fee rates and delivering the necessary service will also require additional resources and changes to legislation. The model therefore adopts a number of assumptions to deliver a more phased approach to the delivery of the new verification service. The following assumptions have been made:

- Box 1: Existing local authority verification activities and BSD activities. Additional staff are forecast to be required to deliver the existing service in 2024/25 and beyond. It is assumed that all additional funding for this component of the model will be required in 2024/25 and the subsequent years.
- Box 2: Additional local authority activities. These activities primarily relate to stricter compliance procedures. It is recognised that authorities will have to grow their workforce and that will take time. It is therefore assumed that none of the funds for this activity are required in 2024/25, 50% are required in 2025/26 and 100% are required in 2026/27.
- Box 3: Building Standards Hub. Following a successful pilot project it is expected that the building standards Hub will be operational during 2024/25. Hence all funds associated with this activity will be required in 2024/25 and subsequent years.
- Box 4: High-Risk Buildings. The legislation for the introduction of compliance plans for HRBs may take longer to enact than the 2024/25 start year of the model. However, to allow authorities to move towards the full implementation of the compliance plan in 2026/27, it is assumed that 25% of funds are required for implementing compliance procedures in 2024/25, 50% in 2025/26 and 100% in 2026/27. No fees for HRB pre-application meetings are required until 2026/27.

4.3.3 Applying these assumptions yields the additional funds required to be raised through fees in each of the modelled years. Table 4.4 provides details for the 30% overhead uplift scenario.

**Table 4.4: Additional Fees for Building Standards Service, £m (30% Overheads)**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
1. Current LA & BSD Activities (net of £1m surplus)	5.503	6.871	8.287
2. Additional LA Activities	-	1.696	3.515
3. Hub	0.930	1.014	1.098
4. HRBs	0.271	0.561	2.199
<b>Total Additional Funds</b>	<b>6.704</b>	<b>10.142</b>	<b>15.098</b>

4.3.4 The phased approach to implementing the proposed changes to the building standards system reduces the funds required in 2024/25 from £11.8 million (Table 3.3 less £1 million surplus) to £6.7 million. For 2025/26, the phased approach requires £10.1 million compared to £13.4 million. The largest individual component in every year is the additional funds required to deliver the existing service. The increase in the cost of delivering the existing service includes the additional staff numbers forecast and the effects of inflation.

4.3.5 Table 4.5 provides the results when the overhead uplift is 20%.

**Table 4.5: Additional Fees for Building Standards Service, £m (20% Overheads)**

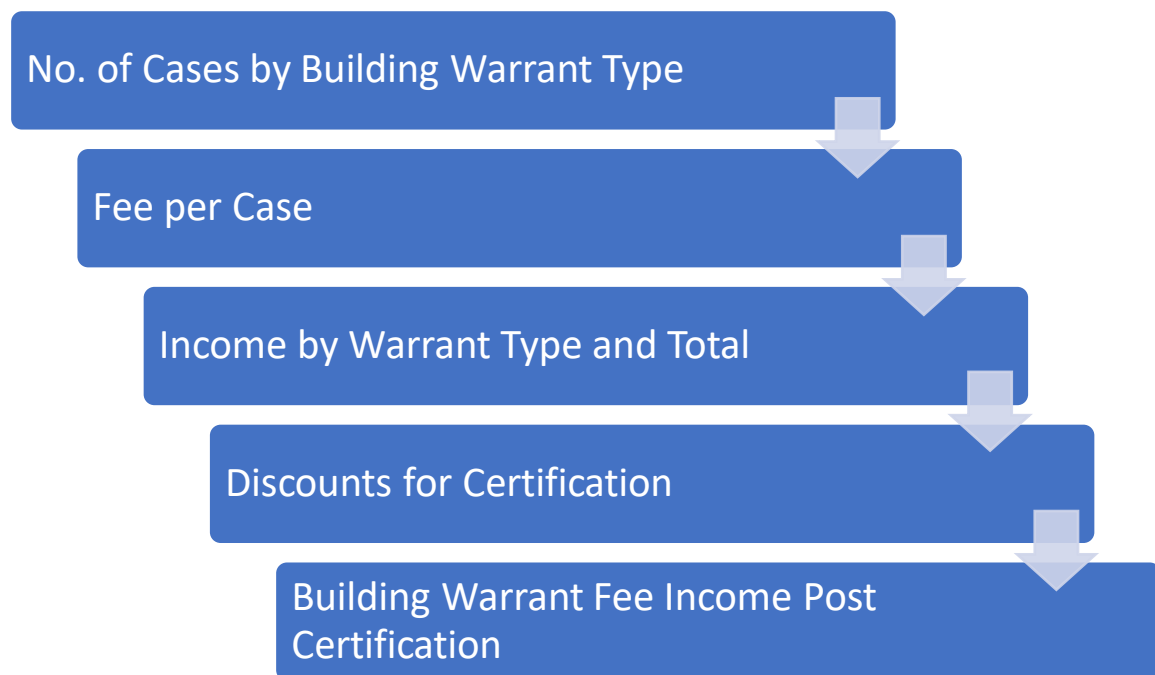
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
1. Current LA & BSD Activities (net of £1m surplus)	5.041	6.308	7.619
2. Additional LA Activities	-	1.566	3.245
3. Hub	0.930	1.014	1.098
4. HRBs	0.250	0.518	2.109
<b>Total Additional Funds</b>	<b>6.221</b>	<b>9.405</b>	<b>14.071</b>

# 5. Model Results

## 5.1 Introduction

- 5.1.1 The new fee model buildings on the Phase 1 model and continues to be based on the number of building warrant applications by value of work bands. However, the model has the flexibility to estimate the additional fee required to deliver the new activities shown in Boxes 2 to 4 in Figure 3.2. The model has been developed at the Scotland-wide level but it can be applied at the sub-national level. Some sub-national modelling has been undertaken for five broad categories of authorities – urban, primarily urban, mixed, primarily rural and rural.
- 5.1.2 The structure of the model is shown in Figure 5.1. The core model estimates fee income from building warrant applications by type and value of work bands. It then makes an allowance for discounts provided for certification to determine total building warrant fee income net of certification discounts.

**Figure 5.1: Structure of Building Warrant Fee Model**



- 5.1.3 The model was developed using data from 2021/22 and tested on historic application data (e.g. number of applications by value of work band) for the five year period 2017/18 to 2021/22. These historic data form the baseline of the model.
- 5.1.4 The modelling has been undertaken for two scenarios:
  - Scenario 1: Overheads in building standards are assumed to be 30% of staff costs which is consistent with KPO5.



- Scenario 2: Overheads in building standards are assumed to be 20% of staff costs.

5.1.5 In the two scenarios, it is assumed that there is £1 million of funds already in the system and the additional funds for the future delivery of the existing building standards service (Box 1 in Figure 3.2) is reduced by this amount. All other additional funds are assumed to be raised through fees and an allowance for inflation. Inflation has been dealt with in the model in two ways:

- For fixed fee rates, an inflationary increase of 22.9%<sup>12</sup> has been applied to allow for the effects of inflation between 2017 and 2022. Inflation is forecast to be 7% between 2022 and 2023 and 2.5% per annum thereafter<sup>13</sup>.
- Increasing construction costs will, over time, move an application up the value of work scale. To allow for this, we have assumed that the cost of the building warrant increases by 7% between 2022 and 2023 and 2.5% per annum thereafter<sup>11</sup>.

5.1.6 The additional funds raised through the inflationary effects on non-fixed fee rates have been used to reduce the amount of additional funds required to be raised from increased fee rates as extra fees will be delivered. It is also only the non-fixed fees which contribute to the additional funds required to deliver the future building standards service.

## 5.2 Scenario 1: 30% Uplift for Overheads

5.2.1 Table 5.1 sets out the fee scales for non-HRB projects under Scenario 1 (30% overhead uplift). Table 5.2 provides the fee rates for HRB projects. It is assumed that most HRB projects are likely to be in the higher value of work bands. However, the compliance plan process will also apply to extensions and alterations of HRBs, therefore there is a HRB fee rate for all value of work bands excluding the lowest (£0 to £10,000) value of work band. Total HRB fee rates include both the non-HRB fee plus the HRB uplift. The results are shown for each of the three forecast years with the percentage increase between current and 2026/27 fees also shown.

5.2.2 The Tables shows:

- The largest percentage increases for non-HRB buildings are in the fixed fee category which reflects the effects of inflation from 2017 to each of the forecast years.
- The phased approach to HRBs results in more modest increases in fees in the first two years. The increase in 2026/27 in the lower value of work categories (£10,001 to £50,000 and £50,001 to £250,000) is high relative to the current rate. This is primarily driven by the fixed cost assumed for pre-application

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<sup>12</sup> Inflation between 2017 and 2022 in building cost index.

<sup>13</sup> Based on forecast changes in building cost index.

discussions at either £900 for values of work over £250,000 or £450 for lower values of work. The pre-application discussion cost dominates the extra HRB cost at value of work bands up to £1 million.

**Table 5.1: New Fee Rates for Scotland for Non-HRB Projects, Scenario 1 (30% overhead uplift)**

Value of Work Band		Current Fee, £	2024/25, £	2025/26, £	2026/27, £	% Change Current to 2026/27
0-£10,000	Conversion	150	207	212	218	45.2
	Demolition	150	207	212	218	45.2
	Extension	100	138	142	145	45.2
	Zero Fee	-	-	-	-	-
	<£5000	150	207	212	218	45.2
	£5k - £10k	245	261	276	293	19.6
£10,001-£50,000	Zero Fee	-	-	-	-	-
	All Others	593	631	669	709	19.6
£50,001-£250,000		1,240	1,319	1,399	1,483	19.6
£250,001-£1 million		2,682	2,854	3,025	3,208	19.6
>£1 million	£1-£5m	7,910	8,416	8,922	9,462	19.6
	£5-10m	18,789	19,991	21,193	22,475	19.6
	£10-£25m	33,970	36,143	38,316	40,633	19.6
	£25-50m	79,509	84,595	89,681	95,105	19.6
	>£50m	142,759	151,891	161,022	170,762	19.6
Amendments	<£5k	100	138	142	145	45.2
	>£5k	435	463	491	520	19.5

Note: 2022/23 and 2023/24 have not been modelled as the existing fee rates will apply in these rates.

Inflation increases are built into the modelled fee rates.

**Table 5.2: New Fee Rates for Scotland for HRB Projects, Scenario 1 (30% overhead uplift)**

Value of Work Band		Current Fee, £	2024/25, £	2025/26, £	2026/27, £	% Change Current to 2026/27
0-£10,000		-	-	-	-	-
£10,001-£50,000		593	645	699	1,222	106.1
£50,001-£250,000		1,240	1,350	1,461	2,063	66.4
£250,001-£1 million		2,682	2,919	3,161	4,390	63.7
>£1million	£1-£5m	7,910	8,609	9,323	11,192	41.5
	£5-10m	18,789	20,450	22,144	25,346	34.9
	£10-£25m	33,970	36,973	40,036	45,099	32.8
	£25-50m	79,509	86,538	93,708	104,350	31.2
	>£50m	142,759	155,380	168,253	186,645	30.7

Note: 2022/23 and 2023/24 have not been modelled as the existing fee rates will apply in these rates.

Inflation increases are built into the modelled fee rates.

5.2.3 Table 5.3 sets out the fee income raised from the various fee activities for Scenario 1 using the fee rates in Tables 5.1 and 5.2. The total income raised (net of certification discounts<sup>14</sup> is estimated to be £36.8 million in 2024/25, rising to £43.3 in 2026/27.

<sup>14</sup> The average value of work for a building warrant is around £70,000. This would achieve a £100 discount for an approved certificate of design and £35 for an approved certificate of construction. Certification discounts have been calculated for each of the five certification schemes by assuming that the average number of certificates each year is the same as the five year average (2017/18 to 2021/22) and that the value of the discount increases in line with inflation.

**Table 5.3: Fee Income Raised by Component, Scenario 1 (30% overhead uplift), £m**

<b>Income from:</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Current fee rates	36.227	36.227	36.227
Inflation to fixed fees rates	0.776	0.846	0.918
Inflation drag (non-fixed rates)	(4.246)	(5.207)	(6.192)
Extra fee existing LA/BSD activities	5.503	6.871	8.287
Extra fee additional LA activities	-	1.696	3.515
Extra fee for Hub	0.930	1.014	1.098
Extra fee for HRBs	0.271	0.561	2.199
<b>Total Income Before Certification Discount</b>	<b>39.461</b>	<b>42.009</b>	<b>46.052</b>
Certification Discount	2.637	2.703	2.770
<b>Total Income Post Certification Discount</b>	<b>36.824</b>	<b>39.306</b>	<b>43.281</b>

Note: The income raised from inflation drag reduces the amount of additional funds required to be raised from increased fee rates as extra fees will be delivered.

### 5.3 Scenario 2: 20% Overhead Uplift

- 5.3.1 Table 4.5 sets out the additional funds required to deliver the future building standards service using the box numbers in Figure 3.2 when a 20% overhead uplift is adopted and the phasing of activities set out in para 4.3.2. The building standards service is forecast to require an additional £6.2 million in 2024/25, rising to £14.1 million in 2026/27. The largest individual component is the additional funds required to deliver the existing service. The increase in the cost of delivering the existing service is reflected in the additional staff numbers forecast and the effect of inflation.
- 5.3.2 Table 5.4 sets out the fee scales for non-HRB projects under Scenario 2 (20% overhead uplift). As fixed fees are only changing as a result of inflation, the fixed fees in Scenario 2 are the same as those in Scenario 1.
- 5.3.3 Table 5.5 provides the fee rates for HRB projects. It is assumed that there would not be any HRB projects in the £0 to £10,000 value of work band. The point made under Scenario 1 (paragraph 5.2.2) regarding the effect of the fixed cost for pre-application discussions in the lower value of work bands also applies in this Scenario. Total HRB fee rates include both the non-HRB fee plus the HRB uplift. The results are shown for each of the three forecast years with the percentage increase between current and 2026/27 fees also shown.

5.3.4 Comparison of the fee rates in the two scenarios shows that the 30% uplift for overheads (Scenario 1) adds approximately 2% to fees compared to the 20% overhead uplift.

**Table 5.4: New Fee Rates for Scotland for Non-HRB, Scenario 2 (20% overhead uplift)**

Value of Work Band		Current Fee, £	2024/25, £	2025/26, £	2026/27, £	% Change Current to 2026/27
0-£10,000	Conversion	150	207	212	218	45.2
	Demolition	150	207	212	218	45.2
	Extension	100	138	142	145	45.2
	Zero Fee	-	-	-	-	-
	<£5000	150	207	212	218	45.2
	£5k - £10k	245	257	271	286	16.7
£10,001-£50,000	Zero Fee	-	-	-	-	-
	All Others	593	623	657	693	16.9
£50,001-£250,000	-	1,240	1,303	1,373	1,449	16.9
£250,001-£1 million	-	2,682	2,817	2,971	3,134	16.9
>£1 million	£1-£5m	7,910	8,309	8,761	9,245	16.9
	£5-10m	18,789	19,737	20,811	21,959	16.9
	£10-£25m	33,970	35,683	37,626	39,701	16.9
	£25-50m	79,509	83,519	88,067	92,923	16.9
	>£50m	142,759	149,959	158,125	166,845	16.9
Amendments	<£5k	100	138	142	145	45.2
	>£5k	435	457	482	508	16.8

Note: 2022/23 and 2023/24 have not been modelled as the existing fee rates will apply in these rates.

Inflation increases are built into the modelled fee rates.

**Table 5.5: New Fee Rates for Scotland for HRB Projects, Scenario 1 (20% overhead uplift)**

Value of Work Band		Current Fee, £	2024/25, £	2025/26, £	2026/27, £	% Change Current to 2026/27
0-£10,000	-	-	-	-	-	-
£10,001-£50,000	-	593	636	685	1,200	102.4
£50,001-£250,000	-	1,240	1,331	1,431	2,019	62.8
£250,001-£1 million	-	2,682	2,878	3,096	4,294	60.1
>£1 million	£1-£5m	7,910	8,487	9,131	10,911	37.9
	£5-10m	18,789	20,161	21,690	24,679	31.3
	£10-£25m	33,970	36,450	39,215	43,892	29.2
	£25-50m	79,509	85,313	91,784	101,526	27.7
	>£50m	142,759	153,181	164,799	181,575	27.2

Note: 2022/23 and 2023/24 have not been modelled as the existing fee rates will apply in these rates.

Inflation increases are built into the modelled fee rates.

5.3.5 Table 5.6 sets out the fee income raised from the various fee activities for Scenario 2 using the fee rates in Tables 5.4 and 5.5. The total income raised (net of certification discounts<sup>15</sup> is estimated to be £36.3 million in 2024/25, rising to £42.3 in 2026/27.

<sup>15</sup> The average value of work for a building warrant is around £70,000. This would achieve a £100 discount for an approved certificate of design and £35 for an approved certificate of construction. Certification discounts have been calculated for each of the five certification schemes by assuming that the average number of certificates each year is the same as the five year average (2017/18 to 2021/22) and that the value of the discount increases in line with inflation.

**Table 5.6: Fee Income Raised by Component, Scenario 2 (20% overhead uplift), £m**

<b>Income from:</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Current fee rates	36.227	36.227	36.227
Inflation to fixed fees rates	0.776	0.846	0.918
Inflation drag (non-fixed rates)	(4.246)	(5.207)	(6.192)
Extra fee existing LA/BSD activities	5.041	6.308	7.619
Extra fee additional LA activities	-	1.566	3.245
Extra fee for Hub	0.930	1.014	1.098
Extra fee for HRBs	0.250	0.518	2.109
<b>Total Income Before Certification Discount</b>	<b>38.977</b>	<b>41.271</b>	<b>45.024</b>
Certification Discount	2.637	2.703	2.770
<b>Total Income Post Certification Discount</b>	<b>36.341</b>	<b>38.569</b>	<b>42.253</b>

Note: The income raised from inflation drag reduces the amount of additional funds required to be raised from increased fee rates as extra fees will be delivered.

## 5.4 Sub-National Analysis

5.4.1 Fee rates have been estimated at the sub-national level for five areas:

- Urban: Aberdeen, Dundee, Edinburgh, Glasgow.
- Primarily Urban: East Dunbartonshire, East Renfrewshire, Falkirk, Inverclyde, North Lanarkshire, Renfrewshire, West Dunbartonshire, West Lothian.
- Mixed: Clackmannanshire, East Lothian, Fife, Midlothian, North Ayrshire, South Lanarkshire.
- Primarily Rural: Aberdeenshire, Angus, Dumfries & Galloway, East Ayrshire, Moray, Perth & Kinross, Scottish Borders, South Ayrshire, Stirling.
- Very Rural/Island: Argyll & Bute, Highland, Na h-Eileanan Siar, Orkney, Shetland.

5.4.2 For each of these area models the structure of the model is the same as the Scotland model. The distribution of applications by value of work band varies by area type, except in the over £1 million band where the distribution is the same across all areas. This is due to limitations which may have a slight bearing on the results.

5.4.3 The following parameters have been changed in each area model:

- Number of building warrant applications, amendments and late completion certificate applications.

- Distribution of applications by value of work band.
- Number of certificates of design and construction by scheme.
- Verification and total staff costs.
- The areas share of total (Scotland) applications to calculate the share of BSD and hub costs to be covered by the area.
- Workforce demand.
- Share of surplus funds in each area. Only the urban and mixed areas returned a surplus of building warrant fee income over total costs in 2021/22. These two areas share the £1m surplus in the system which effectively reduces the additional funds required to be raised in each of these areas. The other areas received no share of the surplus.

5.4.4 As the fixed fee rates are being increased by inflation only, these rates remain the same at the Scotland and sub-national levels.

5.4.5 Table 5.7 sets out the non-fixed fee rates for 2026/27 for each of the five areas for non-HRB projects and Scotland (from Tables 5.1 and 5.2) with a 30% overhead uplift. The results are shown for 2026/27 as this is the year when all proposed changes to the building standards service will be fully implemented.

5.4.6 Table 5.8 sets out the same results for HRB projects. As for the Scotland model, it is assumed there will be no HRB projects in the £0 to £10,000 fee band.

5.4.7 The Tables show that urban and very rural/island areas have rates below the Scotland level. Primarily urban and mixed areas have rates which are broadly similar to the Scotland rates and primarily rural areas have relatively high rates.

5.4.8 The following points can be made in relation to each area:

- Urban: the urban area receives the majority of the system surplus which reduces the additional funds to be raised through fees. Forecast staff numbers are a key driver of future costs and these are relatively stable in urban areas.
- Primarily Urban: these areas have not returned a surplus of building warrant fee income over costs. Hence, all additional funds required have to be raised through higher fees.
- Mixed: the area returned a surplus of building warrant fee income over costs and receives a share of the £1 million system surplus. This reduces the amount to be raised through fees. However, this area is forecast to increase staff numbers by approximately 12% which is a key component of future costs.
- Primarily Rural: this area type has relatively high fees reflecting no system surplus and an increase in staff of 17%.
- Very Rural/Island: this area type has relatively low fees, despite there being no system surplus. Staff numbers however are forecast to be reduced slightly which is a key determinant of future costs.



**Table 5.7: New Fee Rates for Scotland and Sub-National Areas for Non-HRB Projects, 2026/27, £, (30% overhead uplift)**

Value of Work Band	Scotland	Urban	Primarily Urban	Mixed	Primarily Rural	Very Rural/Island
0-£10,000	293	265	296	296	326	264
£10,001 - £50,000	709	642	717	717	789	638
£50,001 - £250,000	1,483	1,341	1,499	1,500	1,650	1,334
£250,001 - £1 million	3,208	2,902	3,242	3,244	3,570	2,886
>£1 million:						
£1- £5 m	9,462	8,557	9,563	9,568	10,528	8,512
£5- £10m	22,475	20,327	22,715	22,727	25,008	20,219
£10- £25m	40,633	36,750	41,068	41,090	45,214	36,555
£25- £50m	95,105	86,016	96,122	96,174	105,825	85,559
>£50m	170,762	154,443	171,589	172,680	190,010	153,623

**Table 5.8: New Fee Rates for Scotland and Sub-National Areas for HRB Projects, £, (30% overhead uplift)**

Value of Work Band	Scotland	Urban	Primarily Urban	Mixed	Primarily Rural	Very Rural/Island
0-£10,000						
£10,001 - £50,000	1,222	1,151	1,224	1,234	1,312	1,138
£50,001 - £250,000	2,063	1,917	2,069	2,089	2,253	1,889
£250,001 - £1 million	4,390	4,072	4,402	4,445	4,800	4,013
>£1 million:						
£1- £5 m	11,192	10,256	11,228	11,357	12,402	10,080
£5- £10m	25,346	23,123	25,433	25,738	28,222	22,706
£10- £25m	45,099	41,079	45,255	45,807	50,297	40,324
£25- £50m	104,350	94,941	104,716	106,007	116,517	93,174
>£50m	186,645	169,751	187,302	189,620	208,492	166,579

## 6. Review of Key Assumptions for Model

### 6.1 Introduction

6.1.1 The future costs of delivering the verification service set out in Tables 3.3 and 3.4 are based on a number of key assumptions. These include the level of overheads which should be recovered to ensure the verification service is achieving full cost recovery and the impact of the introduction of the compliance plan approach to high-risk buildings.

6.1.2 The issue of soft enforcement and fees is considered in Section 7.

### 6.2 Treatment of Overheads

6.2.1 Building warrant fees should aim to cover the full cost of the verification service. Table 4.1 showed that the service as a whole covers its costs using data from the LFRs. However, verification costs are not identified separately within these returns and BSD collect the relevant information as part of KPO5. Data are collected for:

- Staff costs for verification.
- Non-staff costs for verification.
- Other verification related investment.

6.2.2 Data for 2021/22 show verification costs were £26.2 million (£23.4 million for staff costs, £2.5 million for non-staff costs and £0.3 million for other verification related investment). Income from building warrant related fee income in 2021/22 was £35.4 million. Excluding overheads relating to verification, this yields a surplus of income of almost £9.2 million over verification expenditure.

6.2.3 The Part 1 research found there was substantial variation in the breakdown of verification costs across authorities with some having 100% of expenditure allocated to staff costs and the majority not incurring any expenditure on 'other verification related investment'. The Part 1 research also found that there was inconsistency across authorities in terms of what expenditure was covered by different categories.

6.2.4 The Part 1 research concluded that:

- Staff cost is the dominant cost in verification expenditure and it is the most consistent across authorities in terms of what is covered by the category.
- Non-staff verification costs tended to cover travel and costs associated with specialist services, although there was variation across authorities.
- There is rarely any allowance for general overheads (i.e. building standards share of corporate services such as IT, finance, legal, HR etc.) in the figures and some inconsistency in the way authorities allocate other components of verification costs.

- 6.2.5 Within KPO5, building standards verification fee income is expected to cover indicative verification service costs. This is defined as verification staff costs plus 30%. Applying the 30% uplift to verification staff costs of £23.4 million<sup>16</sup> yields an estimated total verification cost of £30.4 million<sup>17</sup>. Compared to building warrant related income of £35.4 million (Table 4.2), this yields a surplus of £5 million within the building standards system.
- 6.2.6 The 30% assumption was introduced as part of the Key Performance Framework in 2017 and seeks to cover non-staff costs including overheads. The Part 1 fees research included discussions with some local authority building control departments in England. During these discussions, it emerged that a figure closer to 20% was used as a measure of overheads. Given that overheads feed into the model, this research considered the appropriateness of the 30% assumption for the future model of building warrant fees drawing on several data sources and consultations with selected authorities.

### **Scottish Government Local Financial Returns**

- 6.2.7 SGLFR provide a comprehensive overview of the financial activity of Scottish local authorities. Within SLGFS, building standards is included within the service category “Building, Planning and Development”. At this service level, there is considerable detail available on the components of income and expenditure, but at the sub-service level, the level of detail in the data is less.
- 6.2.8 At the broad<sup>18</sup> service level, the main components of income and expenditure are shown in Table 6.1:

#### **Expenditure:**

- Employee costs – including employer pension contributions.
- Operating costs – premises (e.g. expenses related to the running of premises and land), transport (including direct transport costs, staff travel), supplies and services (including equipment, furniture, catering, stationary, communications) and 3<sup>rd</sup> party payments (payments to an external provider or an internal service delivery unit).
- Transfer payments – 3<sup>rd</sup> party capital projects funded from capital grants and other transfer payments (e.g. debits from soft loans to clients).
- Support services – including corporate services (policy, PR), finance, HR, IT, legal, procurement and property management etc.

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<sup>16</sup> KPO5 return for 2021/22.

<sup>17</sup> See Table 4.2.

<sup>18</sup> Building Standards, Planning and Economic Development.

- Inter/intra authority adjustments - recharge income from other services and contributions from other local authorities.

Income:

- Total government grants – covid specific grants and central government grants to fund 3<sup>rd</sup> party capital projects.
- Total grants, reimbursements and contributions.
- Total customer and client receipts – income from charges to service users, rent income and other sales, fees and charges.

6.2.9 The Table shows that at the broad service level, support services (general overheads) account for approximately 16.3% of employee costs.

6.2.10 At the sub-service level (building standards), the information is restricted to ‘support services’ and ‘all other expenditure’. Table 6.1 shows that support services expenditure of £3.7 million is 10.9% of ‘all other expenditure’. Total local authority building standards staff costs in 2021/22 were £26.6 million. Assuming staff costs of £26.6 million, support costs of £3.6 million represent 13.6%.

**Table 6.1: LFR Income and Expenditure, 2021/22 (£m)**

	<b>LFR00: Building, Planning, Development</b>		<b>LFR07: Building Standards</b>	
	<b>£</b>	<b>%</b>	<b>£</b>	<b>%</b>
<b>Expenditure</b>				
- Employee costs	196.4	32.2	-	-
- Operating costs	274.7	45.0	-	-
- Transfer payments	125.8	20.6	-	-
- Support services	32.0	5.2	3.7	10.6
- Inter-authority adjustments	-18.2	-3.0	-2.8	-8.0
- All other expenditure	-	-	34.0	97.4
<b>Gross Service Expenditure</b>	<b>610.5</b>	<b>100.0</b>	<b>34.9</b>	<b>100.0</b>
<b>Income</b>				
- Government grants	153.1	42.5	-	-
- Grants, reimbursements	58.5	16.2	-	-
- Customer, client receipts	148.5	41.2	-	-
- All other income	-	-	38.2	100.0
<b>Gross Service Income</b>	<b>360.1</b>	<b>100.0</b>	<b>38.2</b>	<b>100.0</b>
<b>Net Revenue Expenditure</b>	<b>-250.4</b>		<b>3.3</b>	

Note: Columns do not sum due to rounding.

6.2.11 Table 6.2 provides a summary, by local authority, of support services in building standards as a proportion of all other expenditure. The data are taken from SLGFS for 2021/22.

**Table 6.2: Support Services as a Percentage of 'All Other Expenditure' by Local Authority for Building Standards (LFR07), 2021/22**

Aberdeen City	3.4
Aberdeenshire	1.5
Angus	0.0
Argyll & Bute	6.5
City of Edinburgh	9.7
Clackmannanshire	30.5
Dumfries & Galloway	6.3
Dundee	11.0
East Ayrshire	9.4
East Dunbartonshire	41.3
East Lothian	21.0
East Renfrewshire	12.9
Falkirk	7.4
Fife	11.6
Glasgow	14.6
Highland	24.2
Inverclyde	13.2
Midlothian	60.9
Moray	8.1
Na h-Eilean Siar	7.1
North Ayrshire	8.9
North Lanarkshire	4.0
Orkney Islands	3.4
Perth & Kinross	4.1
Renfrewshire	11.8
Scottish Borders	0.0
Shetland Islands	2.2
South Ayrshire	0.6
South Lanarkshire	0.0
Stirling	12.0
West Dunbartonshire	35.2
West Lothian	0.7
<b>Scotland</b>	<b>10.7</b>

6.2.12 Table 6.2 shows considerable variation in the proportion of ‘all other expenditure’ accounted for by support costs. For building standards only, the majority (19 or 59%) of authorities have support costs which are less than 10% of all other expenditure. Of these authorities, three have no support services expenditure. Four authorities have building standards support costs which are greater than 30% of all other expenditure. The average across Scotland is 10.7%.

6.2.13 The data in the LFR returns suggest that the 30% uplift to staff costs may be on the high side.

### **Building Control in England and Wales**

6.2.14 The building control system in England and Wales is different to that in Scotland with local authorities able to set their own fee levels on a ‘full cost recovery’ basis for building regulations chargeable activities. The total cost of the building regulations chargeable service should include all the direct<sup>19</sup> costs and indirect costs which support the building regulations chargeable service. These indirect costs have to be apportioned on some reasonable and equitable basis which relate to the benefit that the building regulations chargeable service is receiving.

6.2.15 In line with CIPFA recommendations, the total cost of building control should include:

- Employees.
- Premises related expenditure.
- Transport related expenditure.
- Supplies and services.
- Third party payments.
- Support services.
- Depreciation and impairment losses.

6.2.16 Comparison of the headings above with the Scottish data from the LFR returns shows that items ‘b to e’ are all covered by operating costs in Table 6.1. Support services cover the same elements of expenditure as support services in the LFR returns and they are usually allocated or apportioned to direct services. Within England and Wales, the cost of support services has a direct impact on the level of building regulations charges and the competitive environment in which the building control team operates.

6.2.17 The Part 1 fees report found (from discussions with four English building control teams) that there is considerable variation in approaches adopted by local authorities

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<sup>19</sup> Costs that can be charged directly to the building regulations chargeable service.

in respect of charging central overheads to different departments. The responses on the relative scale of overheads varied widely. The effective uplift on direct costs<sup>20</sup> was up to around 20%. This is equivalent to overheads being 17% of gross costs. The weighted average across this small sample was an uplift of 18% on direct costs which is well below the 30% assumed in Scotland.

6.2.18 The Part 1 report also found that there was a considerable degree of discussion and debate between building control department managers and local authority accountants in England on the basis for these charges. Key issues were the extent to which the charges were fair and reasonable. There was a lack of understanding from building control managers on how these charges were calculated and recharged. A 2021 survey found that 43% of building control departments would like to have a national recharge factor (% uplift on direct costs) similar to the 30% used in KPO5 in Scotland.

6.2.19 A brief internet search has found several local authority building control financial statements which set out expenditure on the items listed in paragraph 6.2.15 for chargeable activities and total building control activities. Table 6.3 provides a summary of support services as a percentage of 'employee costs' and 'employee and operating costs' for selected local authorities.

<b>Table 6.3: Support Services as a Percentage of Costs, Selected Authorities</b>				
	<b>Chargeable Activities</b>		<b>Total Building Control</b>	
	<b>Support Services as a % of:</b>			
	<b>Employee Costs</b>	<b>Employee &amp; Operating Costs</b>	<b>Employee Costs</b>	<b>Employee &amp; Operating Costs</b>
Blaenau Gwent	19.9	19.3	18.4	17.8
Colchester	58.2	52.3	63.4	56.4
Dartford	24.0	21.6	24.7	22.2
Hammersmith & Fulham	28.5	27.3	28.5	24.0
Warwick	19.2	18.3	33.3	31.7

6.2.20 The Table shows that for total building control activities, support services can account for 18% to 63% of employee costs. This is a very wide range across five

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<sup>20</sup> Staff costs and other direct costs.

authorities, but if Colchester is excluded, the range narrows considerably to 19% to 29% (average of 22.9%) for chargeable activities and 18% to 33% (average of 26.2%) for total building control activities.

### **Consultations with Scottish Local Authorities**

- 6.2.21 Five<sup>21</sup> consultations were undertaken with the finance departments to understand further the treatment of overheads in local authority finance and their allocation to building standards. These consultations highlighted the complexities of working across 32 authorities, each with their own approaches to costs and their allocation to services.
- 6.2.22 There were two opposing approaches to the allocation of central support services to individual service areas. For three authorities, their authority had a central support charge allocated to building standards while the other two authorities were not charged for central support. These two different approaches underlie the variation shown in Table 6.2.
- 6.2.23 Where central support is allocated to building standards, there is usually a model which allocates central support services to other service areas using a range of formula (e.g. costs could be based on headcount, floorspace, time, transactions etc.). Allocating central support costs provides a closer estimate of the full cost of providing the service, but it was suggested by consultees that building standards cannot really challenge the central support costs they are allocated.
- 6.2.24 One consultee shared information which showed that total overheads to be apportioned to building standards amount to 16% of building standards staff costs. This additional 'overhead' included some costs which are not shown on the LFR as support costs. The data further illustrate the problems of consistency in trying to estimate additional costs to be attributed to an individual service.
- 6.2.25 Where central support services are not allocated to a service area, it was suggested that the building standards costs are a 'truer' reflection of the actual cost of providing the service as the costs primarily relate to the direct cost of the service.
- 6.2.26 There was broad agreement that employee costs are an appropriate base on which an overhead uplift should be applied, but it was suggested that care is required to ensure all employee costs are included, particularly if there is a central administration team. One consultee provided detailed information on their approach to calculating building standards employee costs which included the building standards share of wider directorate costs and shared businesses support teams.
- 6.2.27 Even within the direct costs of building standards, it was suggested that comparison across authorities is difficult as there are many ways to deliver certain things. For example, car finance can vary across authorities and some cars may be allocated to

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<sup>21</sup> Edinburgh, Highland, North Lanarkshire, Renfrewshire, South Ayrshire.



building standards and will be a direct cost whereas building standards staff may have access to a shared car which would probably not be allocated to building standards.

6.2.28 From the discussions, it was clear that establishing the overhead cost of the building standards service is complex and that an uplift to employee costs is a good approximation. There was general agreement through the discussions that 30% to cover central support services and overheads is “not unreasonable”. One consultee felt that 30% was too high and that 20% would be a more appropriate assumption while another consultee highlighted that they would add 20% to 40% to some grant claims to allow for central services.

## **Conclusions**

6.2.29 Analysis of published LFR data on building standards is limited by the level of detail available for building standards and there is considerable variation across authorities in the percentage of ‘all other expenditure’ accounted for by support services. This wide range reflects two very different approaches within authorities to the treatment of central support services.

6.2.30 From discussions with a selection of building control departments in England, the 30% uplift appears slightly high with an average uplift of 18% across the sample. Limited evidence from the Scottish consultations suggests that 20% may be more appropriate.

6.2.31 It is concluded that verification staff cost is the appropriate base, but that 20% is an appropriate uplift factor. The modelling will consider two scenarios representing 20% and 30% uplift factors.

## **6.3 High Risk Buildings**

6.3.1 HRBs are defined in paragraph 2.4.1 with paragraphs 2.4.1 to 2.4.5 outlining the new compliance plan approach to HRBs. The current model cannot charge different fee rates for buildings with the same value of work, but which require greater verifier input. As a result, this research is proposing to introduce a new fee scale for HRBs which will ensure that the additional cost burden imposed on authorities through the compliance plan approach to HRBs is met by these buildings.

6.3.2 The key additional tasks arising from the compliance plan approach are:

- Pre-applications meetings with the CPM and applicant.
- Pro-active enforcement to check that:
  - work has not started before approval of the warrant (at each warrant stage);
  - the building is not occupied or in use without permission.
- Potential additional site visits/verification work in line with the compliance plan.

6.3.3 BSD consider that only a small proportion of all building warrant applications will relate to HRB projects and that these projects will tend to be in the highest value of work bands. However, any extension or alteration to a HRB will be subject to the compliance plan approach. The number of HRB projects has been estimated as follows:

- 5% of projects in the £10,000 to £50,000 value of work band – 560 projects.
- 5% of projects in the £50,001 to £250,000 value of work band – 273 projects.
- 10% of projects in the £250,001 to £1 million value of work band – 164 projects.
- 80% of projects in the over £1 million value of work band – 572 projects.

6.3.4 This yields a total of 1,568 HRB projects per annum which is an average of 49 per authority.

6.3.5 The first additional component of the compliance plan approach to HRBs is the requirement for the applicant to have a pre-application meeting with the local authority. To gauge the potential cost associated with these meetings, a short review of the fees charged for pre-application planning advice has been undertaken. A summary of the results is shown in Table 6.4 for advice on major or national projects.

<b>Authority</b>	<b>Fee, £</b>	<b>Meeting Included</b>	<b>Details</b>	<b>Other</b>
Dumfries & Galloway	1,250	Yes	Attendance at meeting	Optional charge for site visit
Edinburgh (1 <sup>st</sup> Tier)	1,320	Yes	2hr discussion. High-level views	Optional 1hr meeting for £660
Edinburgh (2 <sup>nd</sup> Tier)	6,480	Yes	3x2hr & 1x1hr discussions. 1 site visit	Optional 1hr meeting for £660
Fife	50% normal fee up to max of £1,800	Yes	2 meetings	
Glasgow	12,000	Yes	Up to 4 meetings, site visit, outcome report	
Highland	5% of normal fee between £3,500 (min) and £7,500 (max)	Yes	Attendance at meeting	
North Lanarkshire	1,000	No		

- 6.3.6 Pre-application advice ranges from £1,250 to £12,000 for authorities where the advice includes at least one meeting. Edinburgh also offers additional meetings at a fee of £660 per hour.
- 6.3.7 The number and length of any pre-application discussions relating to HRBs will no doubt vary by project and authority and include at least one meeting (two hours), preparation and correspondence. For the modelling analysis, it is assumed that the cost of the pre-application assessments is £900. Any alterations to HRBs will also be required to follow the compliance plan process but are likely to involve less work. Hence, a fee of £450 (50% of £900) has been assumed for alterations to HRB projects. The additional cost associated with these meetings is just over £1 million.
- 6.3.8 The additional resources required to undertake pro-active enforcement and additional inspection or compliance work for HRBs has been estimated as follows:
- HRB fee income is assumed to be 33%<sup>22</sup> of fee income and therefore 33% of total verification costs including overheads.
  - Any increase in costs will only apply to reasonable inquiry/inspection costs (i.e. not plan checking costs) which are assumed to be 30% of total costs.
  - An uplift of 30% to cover pro-active enforcement and additional compliance work is assumed.
- 6.3.9 These assumptions yield additional costs associated with HRBs of £2.2 million in 2026/27 where overheads are assumed to be a 30% uplift. Table 6.5 shows the additional costs associated with HRBs adopting the phasing detailed in paragraph 4.3.2. In 2026/27, the costs are split relatively evenly between the costs associated with pre-application discussions and other additional work relating to HRBs.

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<sup>22</sup> The 1,568 HRBs in paragraph 6.3.4 are estimated to generate income of £11 million using current fee rates which is 33% of income (excluding amendment and late completion certificate income).

<b>Table 6.5: Additional with HRBs, £ million</b>			
<b>Scenario 1 (30%)</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Pre-Application Discussions	-	-	1.037
Pro-active Enforcement	0.271	0.561	1.162
<b>Total</b>	<b>0.271</b>	<b>0.561</b>	<b>2.199</b>
-	-	-	-
<b>Scenario 2 (20%)</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Pre-Application Discussions	-	-	1.037
Pro-active Enforcement	0.250	0.518	1.073
<b>Total</b>	<b>0.250</b>	<b>0.518</b>	<b>2.110</b>

6.3.10 Where overheads are assumed to be a 20% uplift (Scenario 2), the additional costs associated with HRB activity are £2.1 million in 2026/27.

#### **6.4 Additional Island Uplift**

6.4.1 Analysis of building standards verification income and expenditure information highlights that there can be additional costs associated with delivering the service in island areas and very rural areas. Discussions considered whether the model should include a mechanism for providing additional funding for these island/very rural areas.

6.4.2 The Scottish Local Government Finance Settlement funding allocation formula for 2022/23 states that “special islands needs allowance (SINA) is an allocation for local authorities with island populations. Broadly speaking, SINA adds just over ten per cent onto the total GAE, FRFG and redeterminations for island authorities or populations, but excluding any of those funding lines that already take account of islandness in their distribution formula.”

6.4.3 The six authorities with islands received an additional £21.7<sup>23</sup> million in funding for 2022/23. Building standards is a service where ‘islandness’ is not reflected in the funding formula and would therefore be covered by the SINA allowance discussed above.

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<sup>23</sup> [Summary of GAE Assessments by Service - Scottish Local Government Finance 'Green Book' 2022-23 - gov.scot \(www.gov.scot\)](https://www.gov.scot/summary-of-gae-assessments-by-service-scottish-local-government-finance-green-book-2022-23)

## 6.5 Other Matters Relating to Fees

6.5.1 The local authority survey gathered opinion on a number of topics including:

- Additional charges.
- Strengthening compliance.
- Soft enforcement.

### Additional Charges

6.5.2 The survey asked if there are any building standards services that should attract a charge and what an appropriate charge would be from a range of bands. A majority of respondents supported charging for the four services outlined in the survey. Details are provided in Table 6.6 which shows that 75% of respondents agreed with a surcharge for applications which have used alternative approaches and there was broad agreement that this should be applied as a percentage of the fee.

6.5.3 Table 6.6 also shows that two-thirds of respondents feel there should be a charge for failed visits where re-inspection is required. Opinion was divided on the level of charge for failed visits with suggestions in the range £50 to £200.

Table 6.6: Potential additional charges for building standards services		
Service	% responding Yes	Suggested charge - % of responses
Failed visit where re-inspection is required (e.g. work not being at the required stage for meaningful inspection)	67%	£50 – 28.6% £51-£100 – 28.6% £101-£150 – 28.6% £151-£200 – 14.3%
Pre-application assessments for non-High Risk Buildings	58%	£50 – 14.3% £151-£200 – 28.6% £301-£500 – 14.3% % of fee – 42.9%
Surcharge for applications which have not followed guidance and used alternative approaches (e.g. fire engineered approaches)	75%	>£1,000 – 12.5% % of fee – 87.5%
Charge for additional inspections over and above a specific number of associated with the fee paid	58%	£50 – 33.3% £101-£150 – 33.3% £151-£200 – 33.3% % of fee – 16.7%

- 6.5.4 More than half of the respondents stated there should be a charge for pre-application assessments for non-HRBs and the preferred option is as a percentage of the fee. Similarly, more than half of the respondents stated that there should be a charge for additional inspections over and above the specified number related to the fee paid. The range of charges was £50 to £200.
- 6.5.5 Some respondents suggested a number of other services where a charge could be made and suggested some possible charges. These included:
- Failed drain test - £50.
  - Inspection where amendment to warrant results - £50.
  - Confirmation that work does/did not require a building warrant - % of fee.
  - Submitting a paper building warrant application - % of fee.
- 6.5.6 The advantages and disadvantages of charging for the services outlined were identified as:
- Advantages:
    - The ability to cover the real cost of the service.
    - Greater compliance through penalising of bad practice.
    - It would force a sharper focus by the applicant/agent.
    - It would ensure that works are up to a required standard and save time for inspectors.
    - It would cover the disproportionate checks required where non-guidance alternatives are used, particularly 3<sup>rd</sup> party costs.
    - Prevention of a small number of developers using a disproportionate amount of case officer time.
  - Disadvantages:
    - Additional workload/administrative burden invoicing for payments and chasing applications where the fee has not been paid.
    - May discourage customers from using the service.
    - Surveyors may look for issues to bring in extra fees.
    - As additional inspections tend to be instigated by building standards due to concerns on site rather than requested by the applicant/agent it could make charging impractical.
    - It would discourage opportunities to alleviate non-compliance issues.

## Strengthening Compliance

6.5.7 The survey sought to gather views on whether the local authorities think there should be a component in the building warrant fee to cover 'soft enforcement' (e.g. work required to investigate or resolve unauthorised building work without having to issue a formal enforcement notice and cover in Section 7). Details are shown in Table 6.7. and show that the majority of respondents support having a component in the building warrant fee to cover soft enforcement, particularly in relation to non-compliance related to building warrant activity and work leading up to the issue of S28 to S30 notices.

Table 6.7: Potential for Soft Enforcement to be include in Building Warrant Fee	
Service	% responding Yes
Unauthorised work	58%
Non-compliance related to building warrant activity	67%
Work leading up to issue of S28 to S30 notices	67%

6.5.8 Some of the comments received in support of respondents' answers relating to soft enforcement include:

"The minimum fee received for applications does not cover the work involved in the background for areas of non-compliance, there are many lost hours spend chasing up soft enforcement where the cost is never recovered."

"This type of work is essential to ensure that 'as built' buildings meet current regulations and achieve the aims of reducing carbon emissions, accessibility, etc. and should be reflected in the fees."

"If the component applies to every building warrant fee then we are not in favour of it - however if it is something that can be added to the fee - however that is achieved we would support this."

"It is difficult to say definitely, if, in the cases above whether there should be a component in the building warrant fee to cover 'soft enforcement'. There is, no doubt, a significant amount of this work done that is unfunded by building warrant fees."

"Unauthorised works, S28 to S30 should remain as enforcement and therefore funding of these activities should not be a burden of those wishing to follow the correct route and obtain warrant etc. If non-compliance is associated with a warrant then yes this should have some funding mechanism that's incorporated into the warrant system to cover Verifier's costs but if out with a warrant then this would be enforcement."

"At present on section 29 or 30 cases we apply a 20% surcharge on the billed costs for dangerous building work to cover our admin costs. Unauthorised works, section

27 would be caught in the 200 or 300% increase in fees in late Building warrant applications or completion certificates where no warrant obtained.”

- 6.5.9 The survey asked local authorities if they think fees for late building warrants and completion certificates are sufficient for any additional work required to deliver the application or certificate of completion. In the case of late building warrants, 88% of respondents feel the 200% fee is sufficient and 75% feel the 300% fee for late completion certificates is sufficient.
- 6.5.10 Where the fees are regarded as insufficient, the reasons offered are the time spent to verify late applications in relation to works on site does not reflect the fee received and there are countless hours of going back and forth to get to issuing the certificate. Another respondent felt the late completion fee can be insufficient as disruptive actions may be required, much more than plan checking and investigation of alternative to guidance or non-compliance matters, whereas late warrants are generally ongoing works.
- 6.5.11 The respondents were then asked how these fees could be strengthened to discourage starting work without approval. Several respondents note that in many cases the cost of delaying a project outweighs the penalty charge applied and costs are just added to the project cost.
- 6.5.12 Respondents were asked if a penalty fee should be applied if work started after an application has been submitted but before approval and should it be focused on high-risk buildings or all applications. Most respondents feel that it should be focused on all applications as shown in Table 6.8.

<b>Table 6.8: Penalties for Work Started before Approval</b>	
<b>Service</b>	<b>% responding Yes</b>
Additional fee if work started after BW submission but before approval – all applications	92%
Additional fee if work started after BW submissions but before approval – high-risk buildings only	33%

- 6.5.13 When asked about the best way to apply this penalty, suggestions included:
  - Make the fee payable prior to building warrant being granted.
  - Notify the customer and effectively make the application invalid until the additional fee is paid.
  - Make the fee payable at the completion acceptance stage if not earlier.
  - Strengthening the enforcement penalties to prevent work progressing further rather than an additional fee.



## 6.6 Funding Mechanism for Hub

- 6.6.1 The survey sought opinion on the funding mechanism for the proposed Building Standards Hub. Respondents were asked to rate a series of options for delivering funds to the Hub on a scale of 1 (most preferred) to 3 (least preferred). Table 6.9. shows the responses received.
- 6.6.2 The Table shows that a majority of authorities preferred the funding mechanism for the Hub to take funds directly from the grant settlement (i.e. top slicing). The average score for this approach was 1.75 which is slightly preferred to the alternative of each building standards department receiving an invoice from the Hub.

<b>Table 6.9: Preferences for Funding Mechanism for Building Standards Hub</b>				
	<b>No. of Authorities selecting:</b>			
	<b>1 – Most Preferred</b>	<b>2</b>	<b>3 – Least Preferred</b>	<b>Average Score</b>
Take funds directly from the grant settlement before authorities receive the grant (e.g. 'top slice')	7	1	4	1.75
Invoice from Hub to individual building standards departments	3	6	3	2.0
Other	1	2	5	2.5

Note: The respondent selecting 'other' as the most preferred mechanism was referring to a 'pay as you go' system.

# 7. Enforcement

## 7.1 Introduction

7.1.1 At present, local authorities receive a revenue grant from the Scottish Government to cover their statutory building standards duties. The adequacy of this level of grant is considered in Section 7.2. In addition to formal enforcement notices, authorities also engage in soft enforcement and this is considered further in Section 7.3.

## 7.2 Grant Aided Expenditure

7.2.1 The current level of grant settlement for building standards statutory duties is £5.3 million, although £1.5 million is taken from the grant prior to distribution to fund BSD verification related activities. The £1.5 million funding for BSD is off-set by the 2017 building warrant fee increase. This grant should cover the cost of maintaining the building standards register and formal enforcement, each of which are considered below.

7.2.2 Table 7.1. provides a summary of the number of formal enforcement notices served across Scotland over the last six years.

Table 7.1: Summary of Total Number of Enforcement Notices, Scotland, 2016/7 to 2021/22						
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
S25: Build Regs Compliance	2	2	9	1	1	1
S26: Continue Reqs.	0	0	0	0	0	0
S27: BW Enforcement	79	118	77	104	56	46
S28: Defective Buildings	29	27	37	39	12	15
S29: Danger. Build. Immed.	409	387	415	323	208	271
S30: Danger. Build. Not Immed.	106	163	74	122	92	124

### Compliance Notices

7.2.3 There have been very few S25 or S26 notices issued since 2016/17. The number of building warrant enforcement notices (S27) issued fluctuates by year but there has been a marked reduction in the number of notices issued since 2019/20. S27 notices can be served when:

- Work requiring a warrant has been or is being done without a warrant.
- Work has been or is being done that is not in accordance with a warrant that has been granted.

- A limited life building has not been demolished by the expiry of the period for which a warrant has been granted.

7.2.4 There is considerable variation in the total number of S27 notices issued by each authority between 2016/17 and 2021/22. Over the six year period, a few authorities have served less than five notices while a few have served over 30 notices. Details are shown in Table 7.2 which provides a summary of the number of authorities by the number of notices served (in total) over the six year period.

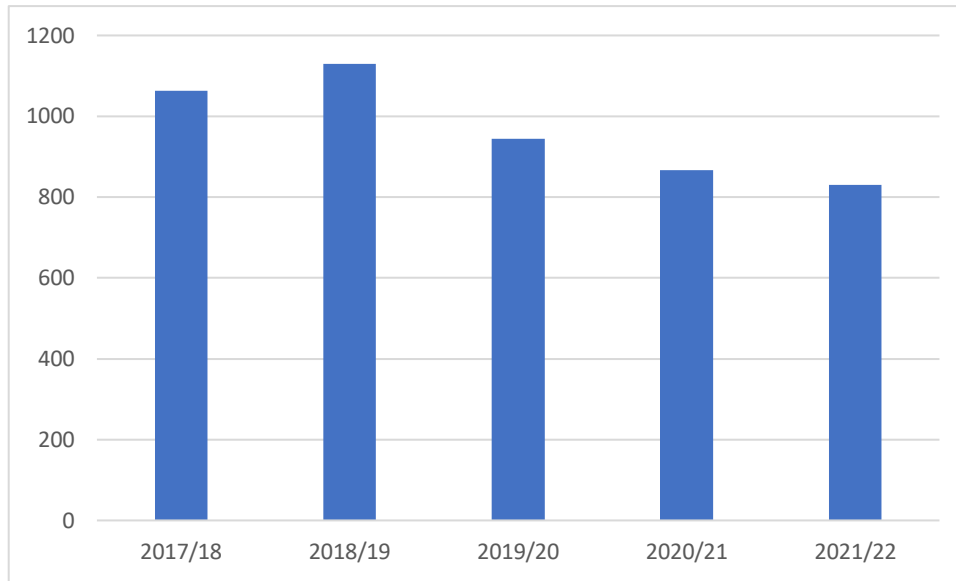
7.2.5 The range in the number of notices served raises issues relating to the level of soft enforcement:

- Are authorities with low numbers of S27 notices engaging in more soft enforcement activity in a bid to limit formal action?
- Are authorities with high numbers of S27 notices engaging in more soft enforcement such that more incidences of non-compliance are identified and there is a greater chance of more formal action being taken?
- Do some authorities just do the minimum amount of enforcement?

<b>Table 7.2: Authorities by Number of S27 Notices Served between 2016/17 and 2021/22</b>	
<b>Notices Served</b>	<b>No. of Authorities</b>
Up to 5	12
6 to 10	5
11 to 20	4
21 to 30	6
31 and over	5

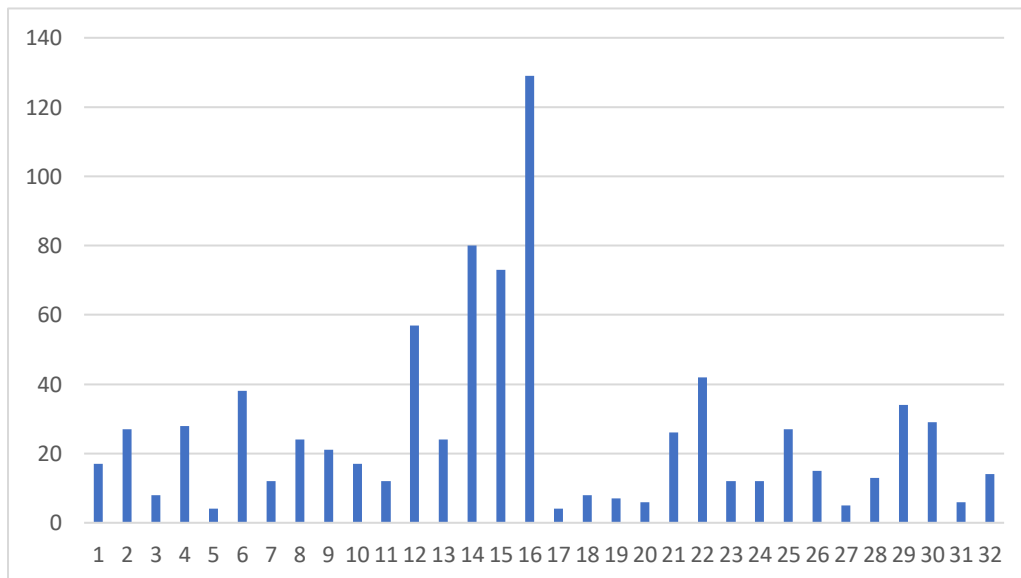
7.2.6 Unauthorised works can result in the submission of a late building warrant application or a late completion certificate application. Figure 7.1 shows the number of late building warrant applications in Scotland has declined from over 1,100 in 2018/19 to 830 in 2021/22.

**Figure 7.1: Late Building Warrant Applications in Scotland**



7.2.7 The distribution of the 830 late building warrant applications by authority in 2021/22 is shown in Figure 7.2. The majority of authorities received less than 40 late building warrant applications in 2021/22.

**Figure 7.2: Distribution of Late BW Applications 2021/22**



7.2.8 For Scotland, late applications accounted for 2.2% of total applications (excluding late, staged and amendments) in 2021/22. Seven authorities had late applications which accounted for more than 3% of applications and four of these seven authorities also had relatively high numbers of S27 notices.

## **Defective and Dangerous Buildings Notices**

- 7.2.9 The number of S28 notices (defective buildings) is relatively low. From a peak of 39 in 2019/20 there were 15 in 2021/22. In 2021/22, the majority (23 or 72%) of authorities did not issue any S28 notices with only four authorities issuing more than one. Covid may have been a factor in the reduced number of notices in 2020/21 and 2021/22 as these types of notices are often picked up by surveyors being out and about.
- 7.2.10 The number of S29 notices has also fallen from approximately 400 per year between 2016/17 and 2018/19 to 271 in 2021/22. The majority (62%) of notices were issued in three authorities.
- 7.2.11 The number of S30 notices has fluctuated between 74 and 163 notices per year between 2016/17 and 2021/22 with 124 in 2020/21.
- 7.2.12 The number of enforcement notices issued varies year to year, but the level of revenue grant provided for statutory duties has remained at the same level since before the previous fee increase. Authorities were asked as part of the survey if they had any details or evidence to support the adequacy or otherwise of the level of grant funding.
- 7.2.13 None of the twelve responding authorities indicated they had any evidence. One respondent indicated that there is no mechanism in place for recording time spent on statutory duties as there has never been a requirement to record this information.
- 7.2.14 One third of respondents indicated that their building standards service does not receive any of the revenue funding for building standards activities.
- 7.2.15 Authorities were asked how much in pounds per annum they require to deliver the local authority building standards statutory role. Several authorities indicated that they do not currently record or cost these activities. One authority thought the current settlement is likely to be proportionate, but as there is no requirement for grant funding to be used for specific purposes, it may not be directed to those activities. The potential for grant (GAE) funds for statutory duties to be ring-fenced was suggested.
- 7.2.16 One authority provided an indicative staffing level of 2.5 FTE for statutory duties while a further authority suggested the difference between building standards total staff costs and verification staff costs in the KPO data provides an estimate of costs. This approach was adopted in establishing the costs of the building standards service in the model, but it is acknowledged that the cost could include some other activities undertaken by building standards teams e.g. licensing.
- 7.2.17 Table 4.3 earlier showed that total non-verification costs (measured as non-verification staff costs plus 30%) have been approximately £4.2 to £4.9 million over the last five years. This would suggest that non-verification costs are lower than the £5.3 million of grant funding.

### 7.3 Soft Enforcement

7.3.1 Through discussions with BSD and the pilot Hub Directors it appears that soft enforcement is not a clearly defined process and that soft enforcement could occur in several situations:

- Unauthorised work: it was suggested that authorities deal with queries about authorised work on a regular basis. This work is work undertaken without a building warrant can result in four possible outcomes:
  - a) No unauthorised work was found, no further action required.
  - b) There is/has been unauthorised work and a late building warrant or completion certificate application is made.
  - c) There was evidence of unauthorised work, but it has been removed.
  - d) A formal S27 notice is served.
- Deviation/non-compliance from a building warrant: soft enforcement could occur at any point in the building process where work deviates from the approved warrant. It was suggested that it is very unusual for an application to be completed without soft enforcement.
- Pursuing dangerous buildings: soft enforcement can arise in relation to dangerous buildings where verifiers try to resolve the situation before formal notice procedures are required.

7.3.2 For some of the situations listed above (e.g. (a), (c), preparation for (b) and (d), pursuing dangerous buildings in advance of the notice), there will be verifier time spent on activities for which no fee or revenue grant is provided.

7.3.3 For work around non-compliance or deviation from an approved warrant, it is not clear where the boundary lies between soft enforcement and providing a good verification service by keeping the applicant on the right track. For this work a building warrant fee will have already been paid.

7.3.4 Several sources of information and data were considered on soft enforcement.

7.3.5 **Discussion with a Local Authority:** one local authority records non-compliance inspections within their systems and provided the data shown in Table 7.3. The data suggest that approximately 10% of inspections are for non-compliance reasons. They also record the number of S27 to S30 cases and notices served. This is also shown in Table 7.3. The number of notices per case varies year to year.

Table 7.3: Enforcement Data from one Local Authority			
	2018/19	2019/20	2020/21
<b>BW Operations:</b>			
Inspections – all	4,062	5,442	4,828
Inspections – enforcement	394	625	437
Enforcement %	9.7%	11.5%	9.1%
<b>S27:</b>			
Cases	73	68	-
Notices	16	11	-
Notices per case	4.6	6.2	-
<b>S28:</b>			
Cases	90	60	-
Notices	27	7	-
Notices per case	3.3	8.6	-
<b>S29:</b>			
Cases	42	29	-
<b>S30:</b>			
Cases	19	10	-
Notices	6	1	-
Notices per case	3.2	10	-

7.3.6 The Authority also indicated that they had no way of recording the hours or time spent on soft enforcement, but that it is resource intensive. Officers spend more time discussing building warrant compliance issues, assessing options and agreeing the way forward than they would issuing a notice. The need for more senior staff time was also highlighted.

7.3.7 **Hub request to the Digital Delivery Group (DDG):** a request was issued to DDG leads to determine how practical it would be to extract information from case management systems to assess time spent on soft enforcement. Feedback to the Hub found:

- It would not be possible to extract the time spent on soft enforcement activity from enforcement or verification activity. Any details provided to evidence activity would be an educated guess.
- Time recording could be established to identify time spent on soft enforcement, but it was described as ‘tricky’ and could not be done retrospectively.

- One response noted that a more formal stance on enforcement will be taken in the future. Contributory factors were the resources required for soft enforcement and a more risk averse approach.

7.3.8 **Survey of local authorities:** the local authority survey asked for any data or information which would help to estimate the prevalence of soft enforcement or the time spent on soft enforcement. None of the respondents were able to provide data as it is not currently recorded to allow this break down. One respondent stated that the situation is common and estimated it occurs with approximately 10-20% of warrant submissions. One authority noted that they are currently reviewing the enforcement recording process within their system to start to record time spent dealing with enforcement.

7.3.9 When asked for comments on the resourcing of soft enforcement both at present and in the future, several respondents highlighted that this area of work is causing issues for their service:

“Soft enforcement' takes up a considerable amount of our time however we cannot quantify that time at present, suffice to say if soft enforcement increases we will be in a position where resourcing this will prove problematic.”

“Resources allocated to this work is very limited due to budget restraints, we don't meet customer expectations and particularly struggle to follow up lower risk incidents as quickly as we would like.”

“Currently there is a massive resource issue in soft enforcement given the time it takes which does have an impact on a case surveyors application checking, if the fees were increased we could resource this by investing in an enforcement team.”

“The activity is resource intensive. Given the existing challenges around workforce strategy/training/development/recruitment, this may be a real issue.”

7.3.10 It is possible that the new compliance plan approach will improve customer behaviour and reduce the amount of soft enforcement required within the building warrant process.



## 8. Devolved Fees

### 8.1 Introduction

8.1.1 One of the aims of the research is to consider options for a fully and partially devolved fees system for building standards in Scotland. For Houses of Multiple Occupation (HMO) and short-term let (STL) licenses in Scotland, local authorities are able to set their own fees to recover their costs for providing and enforcing the schemes. Building control departments in England and Wales are also able to set their own fees on a full cost recovery basis.

8.1.2 This section provides a brief summary of the two licensing schemes and the English approach to building control. The section concludes with a brief description of three options for devolved fees.

### 8.2 Overview of Other Approaches to Licensing and Fee Setting

#### Short Term Lets Licensing Scheme

8.2.1 The Scottish Government guidance on STL licensing<sup>24</sup> states that licensing authorities should develop STL policies specific to their area and that they may apply different policies in different parts of their area.

8.2.2 The aims of the licensing scheme are to:

- Ensure short-term lets are safe and address issues faced by neighbours.
- Facilitate licensing authorities in knowing and understanding what is happening in their area.
- Assist with handling complaints effectively.

8.2.3 It is recognised that the licensing scheme will impose new costs upon local authorities and these costs can be recovered through fees. The aggregate revenue generated from fees must not exceed the authority's aggregate costs of establishing and running the licensing scheme. The fees should be reviewed from time to time to ensure that revenue remains in line with costs.

- Establishment costs include:
  - setting up the scheme.
  - training staff to operate the scheme.
- Running costs include:

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<sup>24</sup> Scottish Government (2021) *Short Term Lets in Scotland Licensing Scheme – Part 2. Supplementary Guidance for Licensing Authorities, Letting Agencies and Platforms*, June 2021.

- processing applications and renewals.
- issuing licences.
- undertaking site visits.
- handling complaints.
- monitoring and enforcement.

8.2.4 The Scottish Government strongly recommends against setting a uniform flat fee for licensing applications. The guidance recognises that whilst it would be administratively more straightforward for licensing authorities, it would disproportionately benefit hosts/operators of larger premises whilst adversely affecting home sharing and smaller self-catering operators. It should be noted that revenue from fines relating to licensing offences do not go to the licensing authority.

### **HMO Licensing Scheme**

8.2.5 The Scottish Government guidance on the licensing of HMOs<sup>25</sup> notes that the purpose of HMO licensing is to achieve and maintain high standards of service in this part of the private rented sector. The importance of HMO owners in providing flexible and affordable housing to occupiers is recognised and the licensing scheme aims to ensure that occupiers can access accommodation that is safe and of a reasonable standard.

8.2.6 The guidance recognises that local authorities should exercise flexibility and discretion in their assessment of applications from different types of providers to balance protection of occupiers with reasonable compliance costs for HMO owners.

8.2.7 A local authority can charge fees for an application for an HMO licence, the issue of a certified copy of an HMO licence or the issue of a certified copy of an entry in the authority's HMO register. It cannot charge fees for inspections or variations to a licence, although the costs of visits to premises are included in the application fee. The fees must be reasonable and proportionate to, but not exceed the costs of all the procedures required to carry out the function of the licensing regime. Furthermore, income received by the local authority from HMO licence fees should not be used to subsidise any other public service or vice versa. The fee structure should be subject to periodic review at the discretion of the local authority.

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<sup>25</sup> Scottish Government (2012) *Licensing of Houses in Multiple Occupation: Statutory Guidance for Scottish Local Authorities*, August 2011, updated January 2012.

## Local Authority Building Control in England and Wales

- 8.2.8 The Building (Local Authority Charges) Regulations 2010 build on the principle of devolving charge setting to local authorities in order to provide more flexibility, accuracy, fairness and transparency in the charging regime and also to improve the environment within which local authorities and approved inspectors compete.
- 8.2.9 The overarching principles of the local authority building control charging system are full cost recovery and users to only pay for the service they receive. It is therefore important to isolate the costs attributable to the building regulations chargeable service from the other building control functions.
- 8.2.10 CIPFA guidance on local authority building control accounting<sup>26</sup> notes that the prescribed building regulation functions and advice for which charges should be levied are:
- Checking full plans and applications.
  - Inspecting work associated with full plans applications.
  - Checking/inspecting work associated with building notices.
  - Checking/inspecting work reverting to local authority control.
  - Checking/inspecting work associated with regularisation applications.
  - Providing advice in respect of the chargeable functions listed above, before these functions are carried out i.e. before an application or notice is received (note: the first hour is non-chargeable).

### Comparison of the Schemes

- 8.2.11 Table 1 (Annex A) provides a comparison of the three charging schemes including a summary of the activities which can attract a charge, possible parameters for setting fees and the costs which can be included in the fee charged. The number of HMO and STL licenses by authority are shown in Table 2 (Annex A) and from these listings, seven authorities were selected for further analysis and consultation.
- 8.2.12 Tables 8.1 and 8.2 provide a summary of the key characteristics of the STL and HMO schemes by authority. The main points to highlight include:
- The variation in the number of charging bands for both schemes. For example, Glasgow has 2 occupancy bands for secondary STLs (4 and under, 5 or more)

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<sup>26</sup> The Chartered Institute of Public Finance & Accounting (2010) *Local authority building control accounting – Guidance for England and Wales*, Fully revised 2<sup>nd</sup> Edition 2010.

while Edinburgh has 10. For HMOs, Glasgow has eight while Edinburgh has 37.

- For STLs, most authorities in Table 8.1 have different fees for home sharing and secondary letting, but not all.
- Some authorities also have different fees for new licenses compared to renewals, but not all for both STL and HMO applications.
- There is considerable variation in the fees charged. For example, a STL for a secondary letting application for a four person property in Glasgow is £250 for 3 years compared to £1,089 for one year in Edinburgh. For a HMO application for 3 people in Aberdeen, the fee is £655 for three years while it is £1,981 in Glasgow.

**Table 8.1: Summary of STL License Information for Selected Authorities**

	<b>Aberdeen</b>	<b>D&amp;G</b>	<b>Edinburgh</b>	<b>Fife</b>	<b>Glasgow</b>	<b>Highland</b>	<b>Stirling</b>
Different Licenses fees for home sharing and secondary letting	No	Yes	Yes	No	Yes	Yes	Yes
Number of bands for capacity	6 (occ. based) (1-2, 3-4, 5-6, 7-8, 9-12, 13+)	3 (bedroom based) (1-3, 4-6, 7+)	6 (occ. based) (1-3, 4-5, 6-10, 11-15,16-20, 21+)	10 (occ. based) (1-2, 3-4, 5-6, 7-8, 9-10, 11-12, 13-14, 15-16, 17-18, 19-20)	2 (occ. based) (4 or less, 5 or more)	4 (occ. based) (1-2, 3-6, 7-9, 10+) Excludes children <2 years	2 (occ. based) (4 or less, 5 or more)
Different fees for initial application and renewals	Not specified	Yes	No	No	Yes	No	Yes
Other licenses e.g. temporary licenses and exemptions	No	No	Temporary license and temporary exemption - 3 occ. bands Property with HMO in place	Temporary license and exemption – 10 occ. bands	No temporary, possible temporary exemption for national events	Temporary license – 4 occ. bands	Temporary license or exemption – 2 occ. bands
Other fees	Not specified	Not specified	Not specified	Charge for visit from failure to comply/complaint Duplicate/copy License variation	License variation	Duplicate/copy License variation Charge for visit from failure to comply/complaint	Not specified
Secondary letting app for 4 person property	£630 (3 years)	£302.81 (3 years)	£1,089 (1 year)	£292 (3years)	£250 (3 years)	£470 (3 years)	£250 (3 years)
Secondary renewal for 4 person property	Assume as new application	£208.4 (3 years)	As new application	As new application	£200 (3 years)	As new application	£200 (3 years)

Secondary letting app for 8 person property	£1,120	£385.85 (3 years)	£2,481 (1 year)	£348 (3 years)	£400 (3 years)	£540 (3 years)	£400 (3 years)
Secondary renewal for 8 person property	Assume as new application	£277.86 (3 years)	As new application	As new Application	£350 (3 years)	As new application	£350 (3 years)

**Table 8.2: Summary of HMO License Information for Selected Authorities**

	<b>Aberdeen</b>	<b>D&amp;G</b>	<b>Edinburgh</b>	<b>Fife</b>	<b>Glasgow</b>	<b>Highland</b>	<b>Stirling</b>
Cost split into different parts – application & inspections during license	Yes	No	No	No	No	No	No
Number of bands for capacity (tenants)	7 (3-5, 6-10, 11-20, 21-50, 51-100, 101-200, 201+)	3 (3-5, 6-10, 11+)	37 (individual increments of 1, 10, 50 depending on size)	10 (occ. based) (3-5, 6-10, 11-20, 21-50, 51-100, 101-200...401-500, 500+)	8 (up to 10, 11,100, 101-200,...601-700)	2 (10 or less, 11+)	6 (up to 5, 10, 20, 50, 100, 100+)
Different fees for initial application and renewals	Yes	Yes	No	No	Yes	No	No
Reductions			Educational institutions if owned/managed by registered charity.	10% if institution, charity, public sector for 3-10 people			Block discount (65%)
Other fees	Not specified	Not specified	Copy of license	Copy of license, Pre-app inspection, Missed appointment Footprint fees	Copy of license Variation of fees – alterations and change in capacity	Copy of license Change of circumstance, Footprint fee	Late app.
App. for 3 people	£655 (3 years) £490 (app) £165 (inspections)	£1,044.75 (3 years)	£653 (1 year)	£1,628 (3 years)	£1,981 (3 years)	£801 (3 years)	£711 (2 years)

Renewal for 3 people	£528 (years) £396 (app) £132 (inspections)	£708.75 (3 years)	As new application (can be 1 or 3 years)	As new application	£991 (3 years)	As new application	£711 (2 years)
App for 11 people	£1,782 £1,617 (app) £165 (inspect.)	£1,312.50 (3 years)	£2,759 (1 or 3 year)	£2,288 (3 years)	£4,197 (3 years)	£1,066 (3 years)	£828 (2 years)
Renewal for 11 people	£1,188 £1,056 (apps) £132 (inspect.)	£945 (3 years)	As new application	As new Application	£2,099 (3 years)	As new application	£828 (2 years)



## Consultations with Scottish Local Authorities

- 8.2.13 Two<sup>27</sup> consultations were undertaken with licensing teams to understand the key issues around local fee setting for HMO and STL licenses.
- 8.2.14 Establishing the cost base is a key issue in setting the license fees which were established on a cost recovery basis. For the STL scheme, estimates have had to be made on the expected number of applications and the likely time to process. Both consultees were able to draw on their experience of other (e.g. HMO, landlord registration) licensing processing times.
- 8.2.15 Both consultees also highlighted the substantial upfront costs which have been incurred (e.g. software, equipment, development of application form, training etc.) and which have to be recovered over a three period.
- 8.2.16 As discussed in Section 6.2 there are two very different local authority models relating to the treatment of central support costs and these two approaches were reflected in the licensing consultations. One consultee made an allowance for support services within the fee while the other aimed to only recover the direct costs of administering the schemes.
- 8.2.17 The structure of the STL license fees in each area were broadly based on Scottish Government guidance (i.e. higher fee rates for larger properties) although it was acknowledged that smaller property applications can sometimes be quite time consuming due to the quality of the application. Local decisions were made on optional conditions to reflect local policy e.g. temporary licenses etc.
- 8.2.18 Both consultees highlighted the need to review the fee rates annually to ensure fee income is covering costs. The costs associated with these reviews should not be underestimated and this is a cost which cannot be recovered through fees. Any change to the fees as a result of a review would have to go to committee for approval and the cost of preparing these papers and committee time can be expensive. Hence, the costs of monitoring and review are one of the disadvantages of local fee setting.
- 8.2.19 A further disadvantage is having different fee rates in every authority for the same license which adds to complaints as applicants compare fee rates across authorities.
- 8.2.20 One of the advantages of local fee setting was the ability to justify the cost of providing the service which reflected the needs of your specific area. For example, the cost base will vary across authorities depending on geography and local circumstances.

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<sup>27</sup> Dumfries and Galloway, Highland.

### 8.3 Options for Devolved Fee Setting

8.3.1 At present the structure of fees for building warrants is set centrally by the Scottish Government and has been since 2005. The actual fee paid is determined locally and depends on the value of work and other factors such as certification discounts and the surcharge for late applications. In England and Wales building regulations fees are set locally within a national legislative framework and there is competition for the delivery of the service. There has been interest expressed by COSLA<sup>28</sup> on the introduction of powers for local devolved fee setting for several local authority services including, potentially, building warrant fees.

8.3.2 The research has reviewed the advantages and disadvantages of different options for moving in full or part to a devolved fee approach. The following three main options have been considered:

- Option 1: full devolution of fees.
- Option 2: partial devolution of fees with national guidance.
- Option 3: partial devolution of fees with deviation from a national fee structure.

#### Option 1: Full Devolution of Fees

8.3.3 Under this option, each local authority would be able to set their own fees for all types and all aspects of verification work. However, this devolution would be within the overall framework for public service fee setting and so would have to operate within these parameters. It is likely that the fees charged would have to adhere to the general principles for setting fees as set out in the Scottish Public Finance Manual<sup>29</sup> which states that “*the standard approach to setting charges for public services is full cost recovery*” (para 2). This manual is “*aimed primarily at the constituent parts of the Scottish Administration*” and its executive agencies. However, its principles would, it is expected, be applied to a devolved fee setting system for building warrants and verification.

8.3.4 The Scottish Government guidance<sup>30</sup> on the recently introduced licensing scheme for short term lets makes it clear that:

- Para 3.1. “Licensing authorities are responsible for establishing and running the short-term let licensing scheme in their area and can **recover the costs of establishing and running the scheme through fees**” (our emphasis added)

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<sup>28</sup> COSLA response to Scottish Government’s Resource Spending Review Framework consultation, March 2022.

<sup>29</sup> [Annex 2: calculating costs - Scottish Public Finance Manual - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/annex-2-calculating-costs-scottish-public-finance-manual-gov.scot/www.gov.scot)

<sup>30</sup> <https://www.gov.scot/publications/short-term-lets-scotland-licensing-scheme-part-2-supplementary-guidance-licensing-authorities-letting-agencies-platforms-2/pages/3/>

- Para 3.2. “Licensing authorities must determine **their own fees and fee structures to recover establishment and running costs specific to their area**. Licensing authorities must review their fees from time to time to ensure that revenue from fees remains in line with the running costs of the licensing scheme”.

8.3.5 The guidance then sets out some further criteria to be taken into account in setting fees, but allows for very considerable flexibility in the specific approaches that can be followed.

8.3.6 The Scottish Public Finance Manual sets out the features to be taken into account in measuring the annual cost of a service. This includes amongst others:

- Total employment costs of those providing the service, including training.
- Accommodation, including capital charges for freehold properties.
- Office equipment, including IT systems.
- Overheads (e.g. shares of payroll, audit, directorate management costs, legal services etc.).
- Fees to sub-contractors.

8.3.7 The Public Finance Manual also states that costs of enforcement (i.e. legal duties) should not be included in establishing the annual cost of a service and setting fees. This is also noted in the STL guidance; “*fee charged for processing the application should not include enforcement costs*”. However, the guidance does state that the licensing authority “*may charge fees to cover enforcement costs once the application is granted (normally through monitoring and/or renewal fees)*”.

8.3.8 The move to a full devolved fee setting regime would require some form of Scottish Government advice and guidance (as per the short term let licensing fees). There would be some choices here:

- Option 1A: very short and **high-level** guidance setting out:
  - a) The scope of local authority powers to set fees (i.e. what services it covered and did not cover).
  - b) The principles of full cost recovery and the elements to be covered and any exclusions (e.g. enforcement).
  - c) Requirement to publish fees.

[This would be akin to the England and Wales model]

- Option 1B: more **detailed guidance** covering the elements of Option 1A but also setting out, if Scottish Government so decided, more prescription/parameters on the actual approach to setting fees at a micro level (for instance a requirement to have a minimum fee, surcharges for late applications etc.).

8.3.9 To move to the new system it is expected that, as well as Scottish Government guidance, further guidance from LABSS would be required to help, in a practical way,

authorities to set fees. Unless precluded from so doing, authorities could also choose to base their fees on the value of work, type of work, area of building etc. as in England and Wales.

8.3.10 Inevitably, under this system, fees for the same type and quantity/size/value of verification work would vary across authorities.

8.3.11 Tables 8.1 and 8.2 above illustrate the variation in fees that can arise when there is full devolution and the complexities of establishing the full cost of the service should not be underestimated. This was highlighted during the consultations with finance department colleagues in the analysis of overheads in building standards (Section 6.2).

### **Option 2: Partial Devolution through National Guidance**

8.3.12 The second option would, in effect, be an extension of Option 1B. It would offer detailed national guidance on a standard fee structure either through BSD or LABSS. This would be a full fee structure, but it would only be guidance and not set in legislation. Each authority could follow the guidance or follow their own approach using a full cost recovery approach. It would be for local discretion to choose the approach.

8.3.13 In England and Wales, LABC produced a model set of charges which have been adopted by many authorities (with subsequent updates). It is expected that authorities would broadly follow the national fee structure but they would have the option to make any local variations they feel are necessary.

8.3.14 It is possible that when introduced to start with authorities would choose to adopt the national guidance, but over time would develop more localised bespoke arrangements either for individual authorities, or potentially groups of authorities (especially where there are shared services).

8.3.15 One issue with this approach is that there could be an inconsistency between expecting full cost recovery and the use of national fees rates which would not reflect difference in local delivery costs (in respect of local employment costs and the geography of areas).

### **Option 3: Partial Devolution through Deviation from National Fee Structure**

8.3.16 The third option would have a national fee structure that is formally legislated as at present but there would be specific allowances (“derogations”) for authorities to deviate from certain aspects of the national charges (but not all of them). For example:

- There could be a local uplift (up to a maximum level) on some fees to reflect different local costs of delivery. The uplift might be purely for local discretion, or it might require approval from BSD.

- There could be the opportunity to pay for local ‘add-ons’ such as specific fees for extra services provided by the authority (e.g. pre-application meetings or advice).

## 8.4 Advantages and Disadvantages of Devolved Options

8.4.1 The advantages and disadvantages of these options compared to no devolution are set out below in Table 8.3 in respect of: complexity; cost of application and development; clarity for users; ability to reflect local circumstances. The key points are:

- **Complexity:** Option 2 would be the most complex as there would be a mix of a national and local systems in operation. Under Options 1A, 2 and 3 BSD would still need to provide guidance and for Options 2 and 3 set fees each year. The complexity of establishing the full cost of the verification service should not be underestimated.
- **Cost of application and development of system:** All Options where complete local fee structures are introduced would lead to costs for authorities in terms of designing their local fee structure and setting fee levels. The advantage of Option 2 would be that authorities could choose to take the “off the shelf” model if they so wished. There would also be monitoring and review costs to consider with local fee structures. All options would require legislation to be amended and created to enable devolved fees.
- **Clarity for users:** Any system where there are different fees in different local areas has the potential to create some complexity for those users who operate across different authorities (i.e. some non-domestic users or volume house builders). The cost of obtaining a building warrant for an identical project could and would vary from area to area. However, such a system has operated in England and Wales with, so far as we are aware, limited challenges for users operating in multiple local authorities. It is not known the extent to which users in England and Wales operating across authorities may use Approved Inspectors. Option 3 and to start with Option 2 would have least variations in fees.
- **Ability to reflect local circumstances:** All devolved systems offer this to some and differing degrees (Option 3 performs least well in that regard). There could also be advantages if fee income was “ring fenced” to support the building standards service.

**Table 8.3: Summary of Advantages and Disadvantages of Devolved Fee Options**

Consideration	Option 1: Full Devolution of Fees		Option 2: Partial Devolution through National Guidance	Option 3: Partial Devolution through Deviation from National Fee Structure
	1A: short, high-level guidance	1B: more detailed guidance		
Complexity - National	Lowest level of complexity at national level.	Slightly more complexity than 1A.	Largely as current system to initially; as more authorities choose their own local fee setting national guidance could become less and less necessary with the two track system complicated.	Largely as current system, the local derogations adding further complexity.
Complexity - Local	Degree of complexity at a local level depends on the fee setting regime chosen in each area (so could vary from area to area).		See above.	Simple to apply; the derogations would need to be set out clearly in advance.
Cost of introducing and delivering fees	Authorities would need to set up their own systems for designing then estimating fee levels each year involving finance teams and BS teams.		Would be extra costs for authorities who chose to introduce their own local system or parts of system.	Similar as present.
Clarity for users	Some potential for confusion for users who operate across several authorities.		To start with as present but over time, some potential for confusion for users who operate across several authorities.	Largely a national regime with some local tweaks, so easy to understand.
Ability to reflect local circumstances	Highest, full autonomy for authorities to decide how to set fees (within broad parameters).	Medium, autonomy and flexibility may be constrained by guidance.	If authorities choose so to do, they can introduce their localised fee regime.	Constrained except for specific elements; so limited scope to reflect local circumstances.
Ability for BSD to determine nature of fee regime	Lowest, very limited.	The guidance would provide more parameters on what authorities could or could not do, so some scope to influence behaviour.	For authorities still using national guidance/system.	Similar to current system, BSD can determine fees.

Overview	Provides authorities the flexibility to determine their own system for charging so performs well in respect of devolution. There would be some extra costs to authorities in introducing and manging the system. Would lead to different fees for same project in different parts of Scotland.	Has some benefits as an interim/transition solution. However, likely to lead to a version of Option 1A or 1B in the long run. There would be some costs and extra complexity from a two track system.	Very similar to a national system, the main benefit is some flexibility for areas to reflect specific extra local costs or introduce small chargers to improve the system. However, does not really deliver any devolution to authorities.
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## 8.5 Conclusions

8.5.1 The main conclusions to be drawn on the introduction of a devolved fees system are as follows:

- There are no specific impediments or factors that would make the introduction of a devolved system inherently difficult. A devolved system has operated in England and Wales for many years and the challenges there relate not to the devolved nature of the system per se but the competition element. It has been beyond the scope of this research to consider the introduction of competition into building warrants in Scotland.
- Scottish Government would have to decide how far it needed to set parameters around the scope for authorities to set fees as they wished (within an overall cost recovery framework). This would involve new legislation and changes as fees are currently statutory.
- There would need to be some form of policing or oversight of fee setting by Scottish Government to ensure that the overall level of fees raised were reasonable compared to the cost of provision and guidance and/or legislation in this regard.
- Having devolved fees might make it more complicated to fund central services and features such as the Hub (although in principle this could be based on warrants issued or fee income by authority).
- A devolved system (in full or part) would introduce variations in fee levels and approaches across Scotland which might cause some mild complication for those users who operate across several authorities. However, this does not feature as a significant concern in England and Wales.



## Annex A HMO and STL Data

Table 1 Comparison of STL, HMO and Building Control Charging in England and Wales			
	Short Term Lets	HMO	LABC
Period of license	Up to 3 years	Up to 3 years and no less than 6 months	
Fee cost coverage	<ul style="list-style-type: none"> <li>- Establishment costs include:               <ul style="list-style-type: none"> <li>o setting up the scheme</li> <li>o training staff to operate the scheme</li> </ul> </li> <li>- Running costs include:               <ul style="list-style-type: none"> <li>o processing applications and renewals</li> <li>o issuing licences</li> <li>o undertaking site visits</li> <li>o handling complaints</li> <li>o monitoring and enforcement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Cost of granting a licence could include:               <ul style="list-style-type: none"> <li>o administration to process application</li> <li>o visits to premises as part of the authorisation process (officer time &amp; travel)</li> <li>o local democracy costs (expenses in arranging and holding committee meetings to consider applications)</li> </ul> </li> <li>- Licence maintenance costs could include:               <ul style="list-style-type: none"> <li>o monitoring and inspection visits</li> <li>o enforcement costs (complaints and non-compliant businesses)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Total cost of carrying out the building control service should include:               <ul style="list-style-type: none"> <li>o Employee costs</li> <li>o Premises-related expenditure</li> <li>o Transport-related expenditure</li> <li>o Supplies and services</li> <li>o Third party payments (e.g. other LAs, private contractors)</li> <li>o Support services (e.g. finance. IT, HR)</li> <li>o Depreciation and impairment losses</li> </ul> </li> </ul>
Chargeable activities	<ul style="list-style-type: none"> <li>- licence applications</li> <li>- licence renewal applications</li> <li>- issuing duplicate licences</li> <li>- consideration of a material change in circumstances or in premises and disposal of the matter</li> </ul>	<ul style="list-style-type: none"> <li>- application for an HMO licence</li> <li>- issuing a certified copy of an HMO licence</li> <li>- issuing a certified copy of an entry in the authority's HMO register</li> </ul>	<ul style="list-style-type: none"> <li>(a) checking full plans and applications</li> <li>(b) inspecting work associated with full plans applications</li> <li>(c) checking/inspecting work associated with building notices</li> <li>(d) checking/inspecting work reverting to local authority control</li> </ul>

	<ul style="list-style-type: none"> <li>- issuing certified true copy of any entry on the public register</li> <li>- visits to premises where visit necessary because of a failure of the host or operator</li> </ul>		<ul style="list-style-type: none"> <li>(e) checking/inspecting work associated with regularisation applications</li> <li>(f) providing advice in respect of the chargeable functions (a) to (e) above, before these functions are carried out, i.e., before an application or notice is received (note: the first hour is non-chargeable)</li> </ul>
Non-chargeable activities	<ul style="list-style-type: none"> <li>- cannot charge hosts/operators for visits to premises where routine part of application processing or ongoing assurance processes</li> <li>- cannot charge neighbours or others for handling complaints or objections</li> </ul>	<ul style="list-style-type: none"> <li>- cannot charge a fee for the variation of an HMO licence</li> <li>- cannot charge a fee for inspections</li> </ul>	<ul style="list-style-type: none"> <li>- Where costs relate to a number of building control functions, then only the proportion of those costs directly relevant to the building regulations chargeable service should be included in the activity.</li> </ul>
Possible parameters for setting fees	<ul style="list-style-type: none"> <li>- size of premises</li> <li>- number of rooms</li> <li>- number of guests</li> <li>- type of short-term let</li> <li>- duration of period property available as short-term let (LA cannot set limits on nights for secondary letting)</li> <li>- extent to which licence holder has complied with conditions of licence (could affect renewal fee)</li> </ul>	<ul style="list-style-type: none"> <li>- flat fee or sliding scale based on number of occupants</li> </ul>	<ul style="list-style-type: none"> <li>- the existing use, or proposed use, of the building after completion of the building work</li> <li>- the different kinds of building work described in regulation 3(1)(a) to (i) of the Building Regulations 2000</li> <li>- the floor area of the building or extension</li> <li>- the nature of the design of the building work and whether innovative or high-risk construction techniques are to be used</li> </ul>

			<ul style="list-style-type: none"> <li>- the estimated duration of the building work and the anticipated number of inspections to be carried out</li> </ul> <p>The costs of providing services in relation to a chargeable function(s) or chargeable advice must be calculated using a single average hourly rate at which the time of officers will be charged.</p>
Recommended parameters	<ul style="list-style-type: none"> <li>- type of licence (lower fees for home sharing and letting than secondary letting)</li> <li>- guest capacity (intended maximum number of guests)</li> </ul>	No specific recommendations	<ul style="list-style-type: none"> <li>- The Charges Regulations 2010 prescribe broad charging principles in which local authorities are given the flexibility to decide whether or not they wish to set standard charges (published in the local authority's charging scheme) or calculate individually determined charges, whichever is considered most appropriate to ensure the accurate recovery of costs.</li> </ul>
Payment options	<ul style="list-style-type: none"> <li>- option to allow hosts/operators to pay ongoing subscription in place of application and/or renewal fee</li> <li>- option to separate application processing fee (payable on application) and monitoring and enforcement fee (payable when application granted or as a subscription)</li> </ul>	<ul style="list-style-type: none"> <li>- option to split initial application and licence maintenance costs (refund of either maintenance element or entire fee to unsuccessful applicants)</li> <li>- option to offer discounts for applications requiring less work, HMO owners with large portfolios where likely economies of scale, or applications from persons who are already licensed</li> </ul>	-



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