LOCAL GOVERNMENT FINANCE (UNOCCUPIED PROPERTIES ETC.) (SCOTLAND) BILL

SUPPLEMENTARY FINANCIAL MEMORANDUM

INTRODUCTION

1. This Supplementary Financial Memorandum relates to the Local Government Finance (Unoccupied Properties etc.) (Scotland) Bill (introduced in the Scottish Parliament on 26 March 2012) as amended at Stage 2. It has been prepared by the Scottish Government in order to satisfy Rule 9.7.8B of the Parliament's Standing Orders. It does not form part of the Bill and has not been endorsed by the Parliament.

2. This information is supplemental to the Financial Memorandum for the Bill[1] which, as introduced, will amend the law regarding non-domestic rates and council tax in respect of unoccupied properties. For non-domestic rates, the Bill allows Scottish Ministers, by regulations, to vary the amount of rates relief in relation to unoccupied premises (or unoccupied parts of premises where there has been an apportionment under section 24A of the 1966 Act). For council tax, the Bill enables variation (including an increase) of the tax payable where a property is unoccupied and amends powers in respect of the ability of councils to require provision of information. The Bill also repeals provisions that allow grants to be made to local authorities in order to allow them to balance their housing revenue account.

3. This document provides projected costs for the creation of a new relief using the new enabling power that is provided for by section 1(4) of the Bill, which was inserted at Stage 2. The new power will allow the Scottish Ministers to incentivise businesses to bring empty properties back into use by providing, by regulations, that prescribed classes of property are to continue to be treated as unoccupied, and so continue to receive unoccupied property relief, for a specified period after becoming occupied.

4. The projected costs provided in this Memorandum are based on the new power being used to create a relief along the lines described to the Local Government and Regeneration Committee by the Minister for Local Government and Planning during its Stage 2 consideration of the Bill on 26 September 2012. That is to say, a 50% rates relief which will be available for no more than 12 months in relation to:

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[1] Available at: http://www.scottish.parliament.uk/S4_Bills/Local%20Government%20Finance%20Unoccupied%20Properties/b12s4-introd-en.pdf

- non-domestic properties classified as shops and offices,
- which were in receipt of empty property relief for at least 12 months before being brought back into use,
- which are not in receipt of any other relief, and
- which have a rateable value of £45,000 or less.

The Government intends that the new relief should be available from the start of financial year 2013-14 and the projected costs in this Memorandum are for that intended first year of its operation.

5. This could mean that for certain empty property, it would receive 100% relief for the first three months it was empty, followed by nine months of 10% relief. If it became occupied after that period, it would attract 50% relief for the first 12 months of that occupied period.

50% RELIEF FOR SHOPS AND OFFICES COMING BACK INTO USE AFTER BEING EMPTY FOR ONE YEAR OR MORE

Costs on the Scottish Administration

6. The costings are based on assumptions as set out below. These will be additional costs to the Scottish Budget from within the Non-Domestic Rates Pool.

7. Cost estimates are split into additional estimated costs for two different categories of newly occupied property:

- properties that could have been expected to come back into use irrespective of the changes to be effected by virtue of section 1 of the Bill (current turnover); and
- additional properties expected to come back into use only because of the changes to be effected by virtue of section 1 of the Bill (including this new relief).

Estimate of impact of current turnover rate

8. The cost to the Scottish Government of properties in this category receiving the new relief is 50% of the gross rates bill for the property.

9. The current turnover rate of properties vacant for at least 1 year coming back into use was estimated using quarterly property level data from the Scottish Assessors Valuation Roll for 2011 and 2012 (collected on 1 January, 1 April, 1 July and 1 October).

10. It was assumed that properties that were vacant on the first day of each of 4 consecutive quarters had been vacant for at least a year.

11. Steps in the calculations to produce the estimated costs below were as follows:

1. starting from a baseline date [e.g. Valuation Roll, 1 Jan 2011] identify properties that remained vacant for 4 quarters;

2. in the following quarter [e.g. Valuation Roll, April 2012], identify those properties which came back into use (i.e. after being vacant for 4 quarters) to estimate the quarterly turnover of empty properties;
3. work out the gross bill for those properties (i.e. rateable value (RV) x poundage);
4. work out the cost of the relief for each individual property (i.e. 50% of gross bill);
5. adjust for the impact of the Small Business Bonus Scheme (based on analysis of previous data[2]);
6. exclude properties with RV > £45k (i.e. the RV cap);
7. apply assumptions that 15% of RV will go to other reliefs (e.g. charity relief);
8. apply assumption that take-up rate for those eligible will be 70%.

Result:

- estimated quarterly cost ~ £295k for approximately 285 properties coming back into use;
- estimated annual cost ~ £1.18m for approximately 1,140 properties coming back into use.

Estimate of cost of additional properties coming back into use

12. The estimated annual cost of the new relief if an additional 10% of all vacant shops and offices came back into use over a year (as a result of section 1 of the Bill), would be around £0.86m.

13. In these estimates, additional properties brought back into use are assumed to have similar characteristics to those which currently come back into use (turnover), with the exception that the additional relief cost for a property coming back into use is 40% of the gross bill (before other assumptions are applied). This is because the property, had it remained unoccupied, would have received 10% empty property relief (under powers to be conferred by section 1 of the Bill, as introduced, empty property relief is to be reduced by regulations from the current 50% to 10%). The cost of the new relief, in relation to each property that becomes reoccupied as a result of the Bill, is therefore the difference between the cost of the new relief (50%) and the cost of the 10% unoccupied property relief the property would have continued to receive had it remained unoccupied.

14. It is not possible to precisely quantify the number of additional properties that may come back into use as a result of the amendments to section 1 of the Bill. To give an indication of the implication on cost estimates, if only 5% of vacant shops and offices came back into use over a year (rather than 10%), the annual cost would be around £0.43m.

[2] Based on previous analysis of Valuation Roll data as at 1 July 2011 and 2011 Non-Domestic Rates Billing System data provided by Councils to Scottish Government

Total cost

15. Combining the costs of £1.18m (current turnover) and £0.86m (if an additional 10% of vacant shops and offices come back into use) gives a total estimated annual cost of around **£2.04m**.

16. Similarly, if only an additional 5% of vacant shops and offices come back into use (at an estimated cost of £0.43m), the total estimated annual cost would be around **£1.61m.**

17. The above are estimates of the annual cost of the new relief (as set out in paragraph 4) based on available data and the assumptions stated.

Margins of uncertainty

18. As indicated above, there are a number of margins of uncertainty in calculating the cost of the new relief. The main uncertainties, which are not judged to have a material impact on the estimated costs, are:

- The number of properties brought back into use, which could be higher or lower than the estimates provided above (both due to changes in the estimated numbers of turnover properties which would have come back into use anyway and increases or decreases in the number of others which are brought back into use as a result of the changes to empty property relief proposed by the Bill and the availability of the new relief for properties brought back into use).
- The rateable value of the properties which are brought back into use.
- The extent to which properties brought back into use are eligible for other non-domestic rates reliefs, such as the Small Business Bonus Scheme.

Costs on local authorities, other bodies, individuals and businesses

19. There will be no additional costs on local authorities, other bodies, individuals or businesses as a result of this amendment. However, where local authorities, bodies, individuals or businesses own or occupy empty premises this creates a new financial benefit for them from bringing these back into use.

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