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Dhìseatach
Ceit Fhoirbheis BPA
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James Dornan MSP
Convener
Local Government and Communities Committee
The Scottish Parliament
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By email:
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29 November 2019

Dear James,

I am writing in light of the debate amongst Members at the Non-Domestic Rates (Scotland) Bill ("the Bill") Stage 2 on the implications of devolving further powers to Local Authorities as intended by the Committee's agreement to Amendment 9.

I strongly support the Committee's decision to consider further evidence on this matter and, I would be very happy to provide additional evidence to the Committee if another session is arranged. In the meantime, as time is short, I wished to write quickly after the vote on Amendment 9 and highlight some of the direct, and possibly unintended, consequences of this amendment and a number of potential risks.

I understand that Mr Wightman's policy intention was to devolve Non-Domestic Rate (NDR) setting powers to councils but to retain a power for Scottish Government to set a rate where an individual council has chosen not to discharge their new powers.

NDR plays an integrated role in the wider local government finance arrangements. As it stands, Scottish Government guarantees the total level of income to councils through the combined contribution of NDR and General Revenue Grant. Where a council's NDR receipts are lower than forecast, Scottish Government compensates the council with an increase in General Revenue Grant.

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Local Government welcome the certainty and protection this framework provides for councils' budget management with Scottish Government retaining the risks associated with NDR volatility which are linked to national decisions on the poundage along with other variations in budget estimates (e.g. appeals loss, bad debt, cost of reliefs, etc.). As is the case with Council Tax, where rate setting is determined locally, there is no reason for national government to be responsible for the risks of volatility and Scottish Government would no longer offer guaranteed local government funding.

Annex A shows the difference between the forecast of NDR receipts in a local area and their audited returns, in 2017-18 and 2018-19. In 2018-19, 23 councils benefited from Scottish Government funding protection. In 2017-18, the equivalent figure was 27. Since the last revaluation, the City of Edinburgh, Aberdeen City and Highland councils have benefited to the tune of £27.6 million, £28 million and £6.8 million respectively. In percentage terms, annual volatility in the range of 5-10% is not uncommon.

There is also uncertainty over the intent behind this amendment as to whether there could be an impact on the formula for distributing funding to local authorities through the local government finance settlement. Equalisation is a long standing fundamental principle underpinning the current needs based distribution system whereby each council's ability to raise income at its own hand through local taxation is taken into account in the overall funding package. It is not clear if this amendment would seek to change that relationship and what the implications of that would be.

The value of Scottish Government funding protection is generally overlooked in discussions about local government funding but this evidence highlights that decisions over Non-Domestic Rates cannot be taken in isolation of broader local government finance issues, including the impact on distribution.

Another direct consequence of agreeing Amendment 9 was the repeal of Section 153 of the Local Government etc. (Scotland) Act 1994 ("the 1994 Act"). Repealing s.153 would have the effect of removing the Scottish Government's ability to provide national reliefs and on commencement would immediately abolish widely regarded and high profile reliefs such as the Small Business Bonus Scheme, Business Growth Accelerator and Nursery relief. Annex B shows the reliefs that would be abolished as a consequence of this amendment with a combined value equivalent to around £307 million as at 31 May 2019, equivalent to just over 40% of all NDR reliefs.

In addition, repealing section 153 of the 1994 Act would remove the power to be used by Amendment 92 by Ms Boyack, 'Contribution to net-zero emissions target: rates relief'. It would effectively be obsolete and I believe the Official Report may reflect some discussions about the Scottish Government's ability to set reliefs that would now be inaccurate as a consequence of Amendment 9.

While I respect Members' convictions that local taxes should be set locally, national representative organisations such as the Federation of Small Businesses and the Scottish Retail Consortium have expressed alarm about the consequences of this amendment.

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The Convention of Scottish Local Authorities (COSLA) also appear to have significant reservations on behalf of their members. In evidence to this committee the COSLA spokesperson said

“We are strongly committed to working on a cross-party basis to look at a potential replacement for council tax and develop a fiscal framework that would encompass the whole local funding arrangement. We believe that non-domestic rates should be considered as part of that; it should not sit outside it.”

I look forward to working with the Committee to ensure that the evidence available to Members of the Scottish Parliament ahead of voting in Stage 3 is sufficiently robust to ensure we do not undermine all the good work of the Barclay Review of Non-Domestic Rates through this amendment.

Regards,

KATE FORBES

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Difference between Non-Domestic Rates forecast (PCA) and Audited Return					
2017-18			2018-19		
	£m	%		£m	%
Aberdeen City	-10.3	-4.1	Aberdeen City	-17.7	-6.8
Aberdeenshire	-1.7	-1.5	Aberdeenshire	-5.1	-4.1
Angus	-1.5	-5.7	Angus	-1.2	-4.3
Argyll and Bute	-0.8	-2.2	Argyll and Bute	-0.3	-0.8
Clackmannanshire	-0.3	-1.9	Clackmannanshire	-0.7	-4.2
Dumfries and Galloway	-0.2	-0.3	Dumfries and Galloway	-2.8	-5.5
Dundee City	-1.0	-1.4	Dundee City	2.8	4.3
East Ayrshire	-1.4	-5.0	East Ayrshire	1.2	4.5
East Dunbartonshire	-0.1	-0.4	East Dunbartonshire	0.1	0.3
East Lothian	-1.4	-5.5	East Lothian	-0.1	-0.4
East Renfrewshire	-0.6	-3.9	East Renfrewshire	-1.1	-6.8
Edinburgh, City of	-19.1	-5.2	Edinburgh, City of	-8.5	-2.3
Eilean Siar	-0.7	-8.3	Eilean Siar	-0.1	-1.3
Falkirk	7.6	11.7	Falkirk	5.8	8.2
Fife	-3.6	-2.2	Fife	-1.8	-1.1
Glasgow City	-9.1	-2.5	Glasgow City	-1.3	-0.4
Highland	-2.8	-2.1	Highland	-4.0	-2.8
Inverclyde	-0.7	-3.8	Inverclyde	0.3	1.7
Midlothian	2.3	7.4	Midlothian	-1.9	-5.8
Moray	1.4	3.3	Moray	1.8	4.2
North Ayrshire	-3.0	-7.2	North Ayrshire	-0.1	-0.2
North Lanarkshire	0.3	0.3	North Lanarkshire	3.9	3.6
Orkney	-0.6	-5.9	Orkney	-0.2	-1.9
Perth and Kinross	-4.1	-7.2	Perth and Kinross	-0.8	-1.4
Renfrewshire	-5.6	-4.4	Renfrewshire	11.9	11.3
Scottish Borders	-5.2	-13.9	Scottish Borders	-1.3	-3.5
Shetland	-0.2	-1.0	Shetland	-0.6	-2.2
South Ayrshire	1.1	2.6	South Ayrshire	1.5	3.5
South Lanarkshire	-7.9	-2.4	South Lanarkshire	-11.1	-3.2
Stirling	-3.8	-8.3	Stirling	-1.0	-2.3
West Dunbartonshire	-5.1	-6.0	West Dunbartonshire	-2.4	-2.8
West Lothian	-3.4	-4.1	West Lothian	-1.5	-1.7
SCOTLAND	-81.7	-2.9	SCOTLAND	-36.1	-1.3

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ANNEX B

Relief type	Relief as at 31st May 2019 Relief value (£m)	Reliefs established using s.153 that would be abolished following Amendment 9 Relief value (£m)
Small Business Bonus Scheme (SBBS) relief	266.5	266.50
Charity relief	232.4	
<i>of which mandatory Charity relief</i>	<i>203.1</i>	
<i>of which discretionary Charity relief²</i>	<i>29.3</i>	
Empty Property relief	82.5	
Religious Exemptions	27.6	
Rural relief	4.2	
<i>of which mandatory rural relief</i>	<i>0.8</i>	
<i>of which discretionary rural relief²</i>	<i>3.4</i>	
Disabled Rates relief	65.7	
Sports Club relief	15.5	
<i>of which mandatory sports club relief</i>	<i>2.2</i>	
<i>of which discretionary sports club relief²</i>	<i>13.4</i>	
Transitional relief³	4.3	4.30
Day Nursery relief³	9.2	9.20
Business Growth Accelerator (BGA) relief⁴	20.6	20.60
<i>of which BGA (new occupied and improved)</i>	<i>18.2</i>	
<i>of which BGA (unoccupied newbuilds relief)</i>	<i>2.4</i>	
Renewable Energy relief	6.2	6.20
Fresh Start relief	2.4	
Enterprise Areas relief	0.6	0.60
Community Empowerment Act relief ⁵	0.1	
Lighthouse relief ⁵	0.1	
New Fibre relief⁶	0.2	0.20
District Heating relief	0.2	0.20
New Start relief	0.0	
Mobile Masts relief⁵	0.0	0.0
Hardship relief ²	-	
Stud Farms Relief ²	-	
Unknown relief ⁷	-	
All reliefs	738.2	307.80

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