Serving the Future

Business rates and hospitality:

Revaluation and reliefs

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November 2023

Business rates (officially known in Scotland as non-domestic rates) are a system of taxes levied on business premises across the UK. Since devolution, the Scottish Government has set the system of rates, exemptions and reliefs, with responsibility for valuations sitting with the Scottish Assessors.

The money raised by non-domestic rates helps fund local authorities and accounts for around a fifth of local government funding, similar to the amount raised by Council Tax.

Business premises are regularly revalued to reflect changes in the 'rateable' value of property across the country. Rateable values broadly correspond to notional rental values for the property. For many hospitality businesses, this is derived from turnover from different elements of the business.

Since devolution, revaluations should have occurred on a five yearly basis, but have been frequently delayed (although obviously not as significantly as has been the case with Council Tax). The most recent revaluation came into force on the 1st April 2023, and was based on property values as of 1st April 2022. Going forward, legislation now states that revaluation will happen on a three-year cycle meaning the next set of values will come into force in 2026.

The process of revaluation can lead to large changes in the amount of non-domestic rates payable by different businesses depending on how rateable values have changed. The last revaluation prior to 2023 was in 2017, using 2015 values. The intervening period has seen some fairly momentous events, including Brexit and the Covid-19 pandemic that have impacted on different parts of the economy in different ways.

The Scottish Government have published a report that analyses the changes over that time in the value of properties. Aggregate values increase by 5.36% (£390 million). Most sectors saw in increase in rateable value, with the exception of 'public houses and restaurants' and 'retail' where values fell. On a regional basis, only Aberdeen City and Renfrewshire a fall in values and Argyll and Bute had the largest regional increase.

This summary looks in more detail at the impact of the revaluation on the hospitality sector in Scotland. We have created a bespoke definition of hospitality using data from the valuation roll which includes all businesses matching the description of the food and accommodation services sector.[i] We use the median to shows changes over the revaluation period.

The impact of revaluation across Scotland

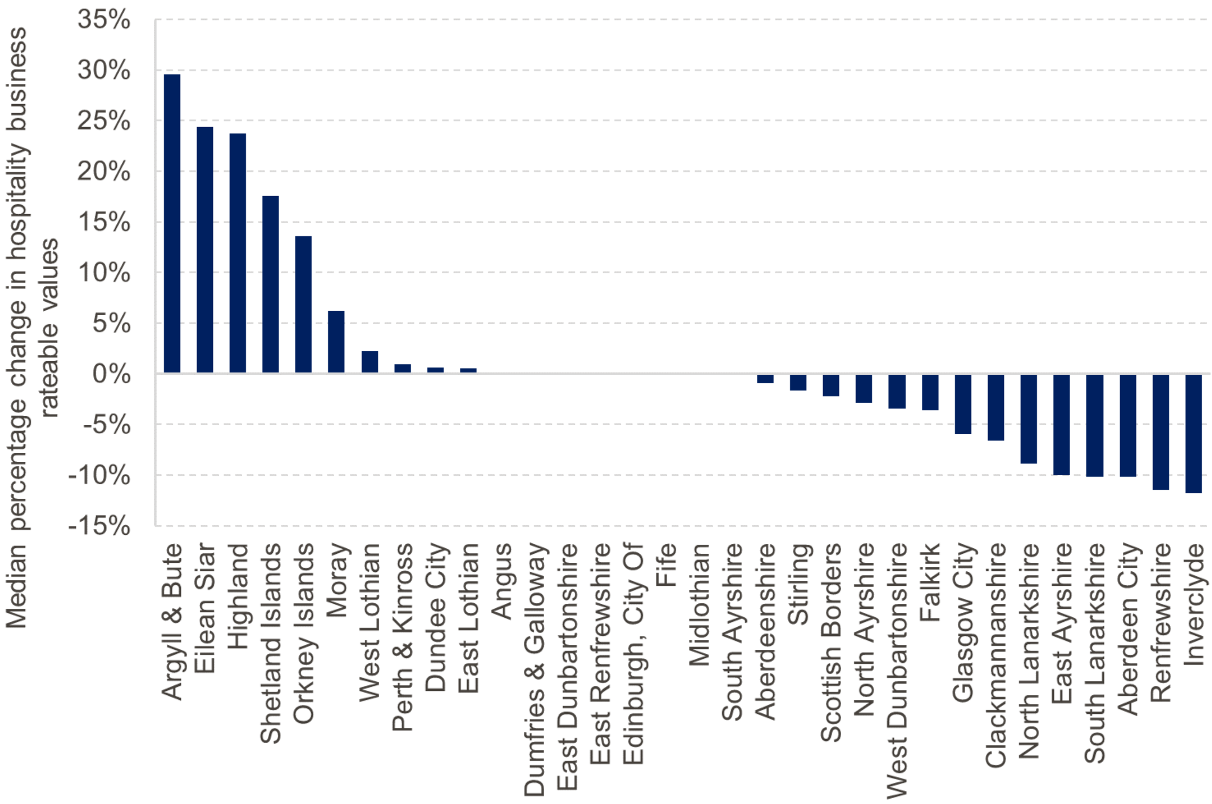
Across Scotland, there was no change in the 'median' rateable value of a hospitality premises, compared to a growth of 5% across the all industries. However, the regional picture shows variation across the country. Rateable values for each area of Scotland are the responsibility of local Assessors.

Chart 1 shows how rateable values have changed over the country. The hospitality industry saw large increases in rateable value in Argyll and Bute, Eilean Siar, the Highlands, and the Orkney Islands and Shetland Islands.

By contrast, the industry saw sharp decreases in rateable value in Aberdeen City, East Ayrshire, Inverclyde, Renfrewshire and South Lanarkshire.

The 5 local authorities who have seen notable rises in rateable values in the hospitality sector are rural west of Scotland and the islands. These local authorities also saw increases in all industry rateable values, although the changes in rateable value in the hospitality sector were more extreme.

Chart 1: *Changes in hospitality rateable values across Scotland as a result of the latest revaluation*



Source: Valuation Roll

No relief for hospitality bill payers in Scotland

Whether or not a business sees a rise or fall in their bill depends not just on their new rateable value, but also on the tax rate (known as the "poundage") set by the Scottish Government plus the offsetting impact of any reliefs. The Scottish Government states that the total gross non-domestic rate bill rose by just over 3%, which is lower than the overall increase in rateable values due to the impact of transitional reliefs.

Transitional relief caps increases in bills by a gradually decreasing amount over a period of three years. For a small business, the 2023/24 cap was 12.5% and this will rise to 25% in 2024-25 and 37.5% in 2025-26.

The Scottish Government does not publish property level data on gross bills that would allow us to construct a hospitality average in the same way as shown in Chart 1. It does however provide data on two subcategories: pubs & restaurants, and hotels.[ii] Both saw a fall in gross bills but again there is wide variation across Scotland.

Whilst transitional relief will have limited increases in bills for many hospitality businesses, there are concerns that Scotland has not gone further to support the sector via the non-domestic rates system. In England, for example, hospitality businesses were able to receive 75% off their rates bill (up to a maximum of £110,000) in 2023/24. The Scottish Government have estimated that a similar 75% relief for hospitality businesses in Scotland would have cost £85 million a year in 2023/24.

Of course, it is perfectly reasonable for the Scottish Government to justify a different approach in Scotland. Various exchanges in the Scottish Parliament (see here and here) indicate that the government decided to prioritise other measures such as freezing the poundage rate, small business rates relief and Rural Rates Relief. Indeed, many hospitality businesses will benefit from these schemes.

However, there remains discontent with higher bills north of the border and a lack of reform of the non-domestic rates system as whole, with a feeling that businesses that require a physical footprint to trade are penalised compared to businesses that can trade digitally.

Finding workable solutions is not an easy task, but suggestions include changing the way many hospitality venues are valued to take account of profit, rather than turnover, which would minimise the impact of rising prices between revaluation years that boost turnover but mask rising costs and squeezed margins.

Whether or not an easing of the amount of non-domestic rates paid by hospitality businesses would lead to improved conditions for workers is not guaranteed, but any moves to tie such changes to conditionality on firms is unlikely to be welcomed by the sector, and would be difficult to implement and monitor in practice.

Hospitality bodies are involved with the Scottish Government's New Deal for Business group and there are hopes for recognition of the issues facing the sector and long-term reform of the current rates system.

About Serving the Future

Serving the Future is a three-year action research project working with hospitality employers and workers. The project is seeking to understand, reduce and prevent in-work poverty and identify changes that could be made within the sector. By working directly with employers and people with experience of low-paid work, the project is taking a variety of approaches to identify changes that can take place at an organisational level as well as necessary policy or systems wide changes that are required across Scotland.

Serving the Future is funded by The Robertson Trust and is being delivered by the Institute for Inspiring Children's Futures, the Fraser of Allander Institute and the Hunter Centre for Entrepreneurship (University of Strathclyde), and the Poverty Alliance.

About the Authors

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Both Emma and Chirsty have been involved in the Serving the Future project since its inception in 2022.

Contact Serving the Future

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serving the future

reducing and preventing in-work poverty in Scotland's hospitality sector

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[i] Businesses were grouped into 'hospitality' if they were described as the following:
Accommodation: Apart hotel/apartment hotel/apartment house, bed and breakfast accommodation/establishment, bunkhouse, chalet(s), fishing huts/lodge, glamping site, guest house/accommodation, holiday accommodation, hostel, hotel, huts, inn, lodge, motel, serviced apartments, youth hostel

[ii] Includes hostels, guest houses, bed and breakfast accommodation, and some self-catering properties