Islands Communities Impact Assessment (ICIA) Screening

The Non-Domestic Rates (Islands and Remote Areas Hospitality Relief) (Scotland) Regulations 2024

Introduction

The Islands (Scotland) Act 2018 (The Act) places a duty on the Scottish Ministers and other relevant authorities, including a number of public authorities, to have regard to island communities in exercising their functions, and for the Scottish Ministers this will also include the development of legislation. Under Section 8 of the Act there is a requirement on relevant authorities to complete an Islands Communities Impact Assessment (ICIA) for any new policy, strategy or service which is likely to have an effect on an island community that is significantly different from the effect on other communities.

The Act identifies six local authorities representing island communities in Part 4 of the Act (Section 20(2)), which are Argyll and Bute Council, Comhairle nan Eilean Siar, Highland Council, North Ayrshire Council, Orkney Islands Council, Shetland Islands Council.

This screening document sets out how islands issues have been taken into consideration in the decision to offer a 100% relief for hospitality businesses on Scottish islands and other specified remote areas not connected to a main road network and are only accessible by boat or on foot.

Background

The Budget 2024-25 freezes the Basic Property Rate at 49.8p, ensuring that over 95% of non-domestic properties continue to be liable for a lower property tax rate than anywhere else in the UK. It also continues to support businesses and communities with a competitive non-domestic rates relief package worth an estimated £685m in 2024-25 including 100% relief for hospitality businesses on islands, as defined by the Islands (Scotland) Act 2018, capped at £110,000 per ratepayer. This relief will additionally be extended to eligible hospitality premises in prescribed areas in three locations - Knoydart, Scoraig, and Cape Wrath. This recognises the unique circumstances of these areas, which are not connected to a main road network and are only accessible by water or on foot.

<u>Ferry disruption and performance</u>

As highlighted in the Islands Connectivity Plan, there has been an increase in cancellations and delays on the Clyde & Hebrides Ferry Service (CHFS) network. This has been linked to worsening weather and an overstretched fleet. On CHFS actual reliability (rather than contractual reliability which excludes factors outside operator control, such as weather) has fallen from 97% in 2012/13 to 93% in 2021-22. Northern Isles Ferry Service (NIFS) actual reliability was 92% in 2012-13 but has remained above 96% since. Weather accounts for the majority of cancellations reported by the operators. On CHFS in 2021-22, 1.2% of services were cancelled because of mechanical issues and 3.2% due to weather. For 2021-22 on NIFS no services were cancelled due to mechanical issues and 2.9% were cancelled due to weather.

There has also been a lack of spare vessels to cover for breakdowns. The CHFS major vessel fleet (the 10 larger vessels generally deployed on longer routes to larger islands) has been fully deployed since 2016, affecting resilience across the network. NIFS fleet is also fully deployed at peak times. Stakeholders have also raised issues with an under provision of vehicle space on some key routes, meaning people cannot travel by ferry with their car at short notice[1].

Transport Scotland continues to work with CalMac and CMAL to bring resilience to the network. The introduction of the MV Loch Frisa and short-term charter of MV Arrow are examples of this. In addition, the extended charter of the MV Alfred to the CalMac fleet has been welcomed and is providing much needed resilience during annual overhaul and service disruptions. Transport Scotland have also commissioned two new vessels for Islay as well as two new vessels for the Little Minch routes and progressed investment in key ports and harbours. This is in addition to the two vessels currently being built at Ferguson Marine in Port Glasgow.

Impact on islands

Island communities face a range of economic challenges related to their geography, including a harsh climate, higher fuel and energy costs, and reduced consumer choice. In addition, island businesses report more significant challenges in relation to staffing, costs, profitability and investment than their mainland rural counterparts[2].

Cancelled sailings can have a significant impact on island communities. The provision of safe and reliable lifeline ferry services is crucial to delivering the confidence needed to sustain island communities, businesses, and populations, which are sometimes already facing challenges.

Impact on tourism and hospitality

There were 670 registered tourism businesses in Scotland's islands in 2023, accounting for 10% of all registered island businesses[3].

The tourism sector employed 7,000 people in Scotland's islands in 2022, accounting for 14% of all islands employment (excluding agriculture). The sector accounts for a higher proportion of businesses and employment in the islands than in Scotland as a whole, where it accounts for 9% of employment and 9% of businesses[4].

There is a body of evidence that hospitality and tourism businesses have been disproportionately affected by ferry disruption in recent years:

- A Scottish Tourism Alliance (STA) survey undertaken in October 2023 found that the most significant challenges faced by tourism businesses across Scotland related to costs. However, 16% of tourism businesses cited 'other'

[1] Transport Scotland, Islands Connectivity Plan - Strategic Approach - Draft for public consultation
[2] Highlands and Islands Enterprise Business Panel Survey, April 2023
[3] Inter-departmental Business Register
[4] Business Register and Employment Survey

challenges as the most significant, the majority of which mentioned problems related to ferries. Respondents reported that unreliable ferries were leading to last minute cancellations for accommodation businesses, supply issues and concerns over wider reputational issues for island destinations, which could even impact those islands not directly affected by disruptions to ferry services[5].
- A survey undertaken in May/June 2023 of Mull and Iona businesses (over half of which were tourism businesses) on the impact of ferry disruption in the area in 2022/23, found that businesses estimated that ferry disruption had resulted in cost increases and loss of sales. In addition, 92% of respondents said the ferry disruption had a negative impact on their business confidence, with 18% stating that the ferry disruption caused them to doubt their business' viability[6].

Non-Domestic Rates Islands Hospitality Relief

Non-domestic rates (NDR) are a property tax based on the rateable value (RV) of a property. RVs are based on the notional annual rental value that a property would attract in the open market and are derived from Net Annual Value (NAV). Valuations are carried out by the independent Scottish Assessors, and NAVs/RVs are updated periodically at revaluations, with the most recent being on 1 April 2017 based on rental values as at 1 April 2015.

Existing reliefs include the Small Business Bonus Scheme (SBBS), which grants relief to properties with smaller RVs, and remains the most generous of its kind in the UK. On average across Scotland, 48% of properties (as at July 2022) received some relief from SBBS, and all the islands local authorities except Shetland have a higher-than-average proportion of properties receiving SBBS, as their median RVs (and therefore NDR liabilities) tend to be relatively low. In combination with all other reliefs, such as Rural Relief, 68% of properties on the Shetland Islands, 74% of properties on Na h-Eileanan Siar and 78% of properties on the Orkney Islands already receive 100% relief. We would expect a similar picture on islands in other local authorities[7].

The relief announced in December 2023, as part of the 2024-25 Budget, offers a 100% relief on the NDR payable by hospitality businesses located on Scottish islands, and other remote areas not accessible by road. Islands are defined as in the Islands (Scotland) Act 2018. The other areas are prescribed areas in three locations - Knoydart, Scoraig, and Cape Wrath. This recognises the unique circumstances of these areas which are not connected to a main road network and are only accessible by boat or on foot. The relief is due to last for the financial year 2024-25 only. It is application-based and subject to subsidy control requirements.

The relief is capped at £110,000 per ratepayer, meaning that each business owner can reduce their NDR bills via islands relief, across all their properties, by a total of £110,000 per year. Consequently, some larger businesses providing hospitality on islands will continue to pay some NDR despite the 100% relief.

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[5] STA Autumn Industry Survey, October 2023
[6] Ferry Disruption Business Impacts Survey, Mull and Iona Ferry Committee
[7] Non-Domestic Rates Relief Statistics 2022

Island Communities Impact Assessment

This screening assessment has considered the potential effects and distribution of the relief and how it impacts people living in island communities, presented below in the *Key findings* section. The findings here are based on desk research and Scottish Government analysis of the valuation roll and billing snapshot.

We have determined that this policy will have the effect of potentially reducing the NDR bills of hospitality premises in island communities and other prescribed areas in Knoydart, Scoraig, and Cape Wrath.

Key findings

Table 1 shows the estimated distribution of the value of the relief offered across those six local authorities, and includes properties in the prescribed areas that are also eligible for relief in Knoydart, Scoraig and Cape Wrath, which are all in the Highland Council area.

The official estimated cost for this relief, as published alongside the Budget 2024-25 by the Scottish Fiscal Commission (SFC), is £4.4m. It differs from the total estimated value below mainly due to SFC's assumption that there would be a 70% take-up of the relief.

TABLE 1: Distribution of the value of relief for hospitality businesses on Scottish islands and other specified remote areas, by local authority, 2024-25

Council	**Value of Relief Offered (£ millions, 2024-25)***	**Number of properties likely to be eligible**
Argyll & Bute	1.6	280
Na h-Eileanan Siar**	0.3	110
Highland	2.4	620
North Ayrshire	0.6	70
Orkney Islands	0.6	90
Shetland Islands	0.7	110
TOTAL***	**6.2**	**1,260**

*These figures have not been adjusted for an assumed level of take-up.
**Figures for Na h-Eileanan Siar have been calculated based on an estimated value of SBBS relief. The value of Hospitality Islands relief in Na h-Eileanan Siar may be higher if the SBBS relief awarded is lower than estimated.
***Totals may not sum due to rounding;

The relief will not have a negative impact on island local authorities' budgets. NDR revenue is pooled at a the Scottish Government level and redistributed back to local authorities to help fund local services, including those benefiting non-domestic properties. The Scottish Government then distributes additional central government grants to each local authority according to a needs-based formula that has been agreed by the Convention of Scottish Local Authorities (COSLA) on behalf of

Scotland’s 32 local authorities. As the Islands Hospitality Relief is a mandatory relief, it is 100% funded by Scottish Government and does not affect the amount of funding distributed to local authorities.

In light of the above, the reduction in NDR revenue that the relief implies would not be expected to reduce the funding available for islands local authorities. Islands are further supported by ongoing aspects of the needs-based formula that include consideration of rurality and road length per person (which both tend to be higher for less densely populated areas), as well as the Teacher Remoteness, Distant Islands and Special Islands Needs Allowances.

In addition to these systematic parts of the funding formula, the Islands Cost Crisis Emergency Fund was set up in December 2022 to help mitigate against some of the unique cost of living challenges, including fuel poverty, faced by many islanders. This funding is distributed by the six island local authorities, with support targeted where the local authorities feel it will be most effective and towards people, communities and businesses who are struggling the most.

Conclusion

Our assessment has identified that the relief is unlikely to have any significantly negative impacts for island communities, businesses or local authorities, and is appropriately targeted to benefit hospitality businesses - a key sector of island business and a key source of employment that has been particularly affected by their reliance on ferries.

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