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## Local Government Finance Circular No. 6/2019

### **By Email**

To: Local Authority Director of Finance

Copy: COSLA

7 June 2019

Dear Director of Finance,

### **ALEO (Arms Length External Organisation) - Arrangements for the administration of the existing ALEO relief**

As you will be aware, on 28 November 2017 Mr Mackay announced that properties being run by council ALEOs in receipt of relief, charitable or sports club, on that date would be able to retain the relief in full to continue to support their activities. However, further relief benefit would be offset to councils to mitigate against future ALEO relief expansion.

This letter confirms the arrangements for the administration of existing charity and sports reliefs to ALEOs. The Scottish Government has been working with councils to determine the baseline level of charitable and sport club relief being awarded to ALEOs as at 28 November 2017.

I can confirm that the Scottish Government has decided that it will not be offsetting any excesses of the baseline amount from the 2017-18 financial year.

The Scottish Government will assess the ALEO relief awards for each financial year, once the Government has received the final audited returns from councils, in the following year. Therefore, any excesses will be offset from the relevant council's local government finance settlement in the following year.

For further details of how this arrangement will work please see **Annex A**.

If you have any questions about the arrangement or your council's ALEO baseline please email the non-domestic rates team at [NDR@gov.scot](mailto:NDR@gov.scot).

Yours sincerely,

Graham Owenson  
Head of Local Government Finance

# ANNEX A

## OVERVIEW OF THE COUNCIL ALEO BASELINE

### Purpose

1. This paper provides an overview of establishing the baseline for ALEO rates relief, the administrative application of the baseline by local authorities, and the annual assessment of the baseline by Scottish Government.

### Background

2. In August 2017 the independent Barclay Review of non-domestic rates concluded its final report which included 30 recommendations aimed at supporting economic growth; improving ratepayer experience and administration of the system; and increasing fairness and ensuring a level playing field.
3. Recommendation 24 of the Barclay Review proposed a number of reforms to Charity relief, including a proposal that charity relief be ended for council arm's-length external organisations (ALEOs).
4. On 28 November 2017, the Cabinet Secretary for Finance and the Constitution, Derek Mackay, announced that properties currently run by council ALEOs in receipt of relief on that date would continue to benefit from charity relief from non-domestic rates. However, while any new ALEO or expansion of existing ALEOs will still be eligible for relief, the relevant council's Local Government settlement would be reduced by an offsetting amount.
5. The Scottish Government has worked with each local authority to establish their baseline amount of relief based on the amount of relief, Charity or Sports Club, awarded to Councils as at that fixed point of 28 November 2017.
6. The information below sets out the details of how the initial baselines were established, its application and how annual baselines will be assessed going forward.

### Establishing the Baseline

7. To establish the initial baseline the Scottish Government provided each local authority with a spreadsheet to populate with the details of each ALEO property in receipt of relief Charity or Sports Clubs relief as at 28 November 2017. This included, OSCR-registered charities in receipt of 80% mandatory relief<sup>1</sup> and possible discretionary top-up<sup>2</sup>; and not

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<sup>1</sup> Local Government (Financial Provisions etc.) (Scotland) Act 1962 Section 4(2)

<sup>2</sup> section 4(5)(a)

for profit and charitable ALEOs that are not however OSCR-registered and in receipt of up to 100% discretionary relief<sup>3</sup>.

8. An ALEO property is any premises where the rateable occupier is a company, trust or other body that is separate from the local authority, but is subject to local authority control or influence, such as representation on the board of the organisation, and/or through the local authority being a main funder or shareholder of the organisation.
9. Local authorities were asked by the Scottish Government to populate a spreadsheet setting out all the details of each ALEO property in their area as at 28 November 2017. This included, reference numbers (UARN, PPRN), postcodes, rateable values, type of relief (mandatory and/or discretionary) and the cost of the relief.
10. Where a relief award ceased before the cut-off date, the premises was not included. Equally, where relief was only awarded after the fixed point this was not included in the list.
11. ALEO properties that were under construction on 28 November 2017 have been included in the initial baseline figure providing that:
  - Construction started before the fixed point of 28 November 2017; and
  - The ALEO property was in receipt of relief, charitable or sports club, prior to construction beginning.
12. In this instance properties were included in the initial baseline with the rateable values they had prior to construction commencing.

## **Future Operation and Administration of ALEO Relief**

### Baseline inflation and revaluation

13. Each councils' baseline will be amended annually by the same annual inflationary percentage change in the poundage rate.
14. Similarly, should there be change in the level or threshold of the Large Business Supplement, or any other change to the NDR system, the baseline may be recalculated to reflect that change.
15. In a revaluation year the Scottish Government will change the baseline by an amount commensurate with the average change in rateable values for all properties within the Council area (excluding designated utilities, which have the potential to significantly distort average rateable values in a single council area).

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<sup>3</sup> sections 4(5)(b) or (c)

## Issuing Baselines to Councils

16. In each financial year, the Scottish Government will inform councils of their annual baseline amount for that year.
17. However, if there are changes to the relief awards identified through the Billing Snapshot (the annual snapshot of properties receiving reliefs provided by councils to the Scottish Government) in either the current or the following year, then the Scottish Government reserves its position to adjust the annual baseline for that year to reflect those changes.

## Reallocation of ALEO Relief

18. Local authorities have discretion to allocate their baseline relief as they see fit and change which specific properties, being operated by existing ALEOs, will receive the relief.
19. Where there is a merger/change/re-build or consolidation of the existing ALEOs properties, then the Local Authorities will have the power to redistribute or change which specific ALEO properties will receive the relief within that baseline figure.
20. Should a change in ALEO property or redistribution of relief result in a council exceeding their baseline then the excess will be offset from their settlement. Only values above the baseline will be offset.  
(e.g. if a local authority reallocated relief from an ALEO premises with a rateable value of £100,000 to an ALEO premises with a rateable value of £120,000, assuming that there were no other re-allocations, the difference in relief award would offset).

## Services Brought Back in-house

21. Where a service provided by an ALEO is taken back in-house, the baseline will be reduced to reflect the change in the relief awarded.
22. If an ALEO services are brought back in house at any point in the year, the reduction in the baseline will be applied on a pro rata basis for that year. The reduction will apply in full to each subsequent baseline.
23. The council must inform Scottish Government if an ALEO, that has ever occupied a property in receipt of relief, is dissolved; or if there is a change to the services that an ALEO provides, or a change to the provider of a service.
24. The Scottish Government may check the baseline against the Billing Snapshot and query any changes directly with councils.
25. The Scottish Government may also periodically request councils to provide an updated list of the properties in receipt of ALEO relief.

26. Where there are inconsistencies, we will query this with the local authority. Should this process confirm that services have been taken back in-house, then the council's ALEO baseline will be reduced to reflect this.

#### Offsetting from the Local Government Settlement

27. Audited Non-Domestic Rates Income returns will be used to review the amount of ALEO relief awarded in the previous financial year against the confirmed/adjusted baseline amount for the corresponding year (e.g. in 2019-20, the 2018-19 Audited Non-Domestic Rates Income Returns will be used to compare the reported amount of ALEO relief awarded in 2018-19 with the 2018-19 baseline).

28. If the amount of relief councils have awarded to ALEOs exceeds the corresponding baseline for that year, then that excess will be offset from the Local Government Finance Settlement the following year (e.g. if relief awarded in 2018-19 exceeds the baseline amount in 2018-19 this will offset from the Local Government Finance settlement in 2019-20).

29. This will take place through a downward redetermination of General Revenue Grant allocation and, like the addition of positive redeterminations, any such adjustments will be made to the payments for the last two weeks of March.