SAVE THE UNIFORM BUSINESS RATE

SRC SUBMISSION TO HOLYROOD'S LOCAL GOVERNMENT & COMMUNITIES COMMITTEE

About SRC

1. The Scottish Retail Consortium's (SRC) purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

2. Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

3. The SRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership here in Scotland and across the UK comprises businesses delivering £180bn of retail sales and employing over one and half million employees.

4. In addition to publishing leading indicators on Scottish retail market conditions, our policy positions are informed by our membership and determined by the SRC's Board.

SRC's agenda for rates reform

5. Retail accounts for 22% of business rates, and the SRC has been in the vanguard of efforts to improve the rates regime. SRC's priorities for the rates system are: that it flexes with economic conditions, is competitive, is coherent in the wider public policy context, that there are no ad hoc levies or supplements, and that there is a medium term plan to lower the burden.

6. Headway is undoubtedly being made, particularly the Non-Domestic Rates Bill's plans for more regular revaluations, but also non-legislative measures such as the action taken to bear down on the headline poundage rate with a below-CPI uplift in 2019-20, and the sensible rejection of a new rates levy on premises located out of town.

7. However, this should not be the limit of our ambition. The overall rates burden remains onerous with rates at a 20-year high[1], and with retailers having faced a further £13.2 million uplift in their rates bills in April 2019. A medium-term plan to lower the rates

[1] Ministerial response to written PQ S5W-22489 on 29 April 2019

burden, an end to ad hoc levies, coupled with a reduction and restoration of parity with England on the large firms' supplement (which the Barclay Rates Review said should be done by April 2020), would increase retailers' confidence about investing in new and refurbished shop premises.

Why we support the Uniform Business Rate (UBR)

8. SRC fully supports the predictability, consistency and stability that the pan-Scotland poundage/tax rate (uniform business rate) brings, and indeed has brought for the past two and a half decades. This is despite our deep reservations about the current high level of the poundage rate, particularly at a time when retail conditions are challenging and sales growth is negligible[2].

9. We have greater confidence that the needs of the economy and trading conditions will be factored into Ministerial decisions on the poundage rate, as opposed to local authority decisions on rates. For retail this is particularly acute given the profound structural change underway within the industry. The evidence for this greater confidence can be seen – following our representations[3] - in the decision to switch from using RPI to CPI for the annual uplift in 2018-19, as well as this year's below-inflation rise in the poundage. The fact that only three of the 32 local authorities have ever used their existing power to cut business rates[4] merely reinforces this.

10. Furthermore, the decision on the annual poundage rate is usually set each autumn, making firms' forecasting and budgeting easier than having to wait for local authorities' budget setting in February, which is just a few weeks before the start of the new financial year. Waiting until just prior to the start of the financial year would introduce a fresh element of unpredictability, particularly for firms dealing with multiple billing authorities. Making it more complicated or indeed more expensive for retailers to operate in Scotland makes little sense, as many firms often ensure there is competition internally with other parts of the UK or overseas for increasingly mobile investment capital.

11. The Green Party's amendment – backed by the Committee at Stage 2 – to end the uniform business rate and instead allow each of Scotland's 32 local authorities to set their own local poundage rate, rates reliefs, and local rates supplements and levies, would be a significant and retrograde step.

12. Fragmenting the rates system in this way risks undermining the positive work – from government, public authorities and from business – which has gone in to progressing rates reform. Indeed, it is inconsistent with the thrust of the Barclay Rates Review – which considered the matter[5] - and which was about ensuring competitiveness and about minimising complexity in the rates system.

13. The discussion and vote at Committee to end the UBR had little apparent consideration for the implications or for those affected, in stark contrast to the rigor of the approach pursued through the Barclay Review, Barclay Implementation consultation, and stakeholder engagement on the Non-Domestic Rates Bill itself. It is startling that a tax

[2] SRC's Scottish Retail Sales Monitor, Nov 2019 – 12 month average growth of 0.1%
[3] 'Business leaders call for new rates cap in Scottish budget', 28 Nov 2017 – joint release from SRC, SPF, STA and Scottish Engineering
[4] Ministerial response to written PQ – S5W:17597
[5] Barclay Rates Review, p118

change of this magnitude is being progressed without proper consultation, economic analysis or a Business and Regulatory Impact Assessment. This deficiency raises serious doubts about the wisdom of making taxation changes of this magnitude in this way.

14. More broadly, SRC is concerned about the seemly ad-hoc and piecemeal localism which has crept in to devolved policy making of late. The vote to end the UBR and to introduce workplace parking levies are prominent examples. As outlined previously[6], SRC is open to reform or replacement of council tax, however our worry about the lack of stakeholder engagement in the cross party talks on replacing council tax has only been heightened by this vote to end UBR. Replacing council tax has potential implications for household disposable incomes and consumer spend, for employers, and for other parts of local government finance such as non-domestic rates.

15. SRC has supported local flexibilities allied to rates in the past – including Business Improvement Districts, Business Rates Incentivisation Scheme, and the local discretionary rates relief[7] – but we cannot support handing control over business rates to councils.

16. Past experience of locally-determined rate setting was not a happy one for many ratepayers. Indeed, it has previously been pointed out[8] that before UBR the "average local poundage rate in Scotland in 1990 was 57.3p compared with England's Uniform Business Rate of 34.8p". As such we are unclear why ratepayers should have confidence that councils will do a better job than Ministers at reining in increases in the poundage rate. We certainly do not wish to see the return of a fractious relationship between local government and business, nor between local government and Ministers.

17. Many of our members have current experience of operating in Northern Ireland where local authorities set a poundage rate. Rates bills there are on average 19% higher than in Scotland, ranging from 12% to 29% higher[9]. Applying this 19% uplift to Scotland, and taking one local authority area by way of an example, it would see firms in South Lanarkshire paying an extra £61 million in business rates[10].

18. Earlier this year every Scottish local authority set inflation-busting rises in council tax, with many as high as 4.8%. If a similar figure had been applied to business rates then the increase across all types of ratepayers would have been £134 million, rather than the actual £58.6 million. For retailers, the increase in their rates bills would have been £30.2 million rather than the £13.2 million uplift actually experienced[11]. Applying this 4.8% uplift, and taking one local authority area by way of an example, it would see firms in Perth & Kinross paying an extra £1.45 million in business rates[12].

19. Public policy is already directly contributing to the rising cost of maintaining an extensive store footprint and employing people in stores. There is already a growing cumulative

[6] SRC's Scottish Budget submission, p8
[7] Introduced in the Community Empowerment Act
[8] CBI Scotland submission to the Local Taxation in Scotland inquiry, March 2005: https://archive.parliament.scot/business/committees/lg/inquiries/ctax/CBI.pdf
[9] NI Dept of Finance: https://www.finance-ni.gov.uk/articles/poundages-2018-2019
[10] SRC calculation based on Scottish Local Government Financial Statistics 2017-2018, p42 – published on 26 Feb 2019
[11] SRC calculation based on Ministerial figures - S5W:20610
[12] SRC calculation based on Scottish Local Government Financial Statistics 2017-2018, p42 – published on 26 Feb 2019

burden of cost pressures[13] that weigh on retailers' ability to sustain shops. Ending UBR could open the door to local supplements and surcharges, as evidenced by the appetite from some councils last year for new levies on premises located out of town. SRC is concerned over the potential cost but also how such local supplements would be fairly applied, particularly given councils' own fiduciary interests in business and industrial parks etc.

20. If a consequence of devolving control to councils was higher rates bills, this could undermine support at future ballots for Business Improvement Districts. Retailers often contend with a headline business rate, a large business rate supplement (even on modestly-sized premises), with a BID levy on top. Increased rates bills could lead to more firms opting to vote against BIDs much more consistently.

21. Handing control over rates to councils places a question mark over Scotland-wide rates reliefs like those for improving premises and for small firms. It also raises questions over the First Minister's recent pledge that installing DRS reverse vending machines would not lead to a business rates increase for those retail premises which host them. Without this promised relief retailers face an even larger bill for implementing the Scotland-wide DRS.

22. Shop staff themselves may not be immune from the impact of any locally-determined higher business rates, as staff bonuses for some retailers are dependent on the 'profit and loss' performance of their own individual store. Business rates tend to be the second or third highest outgoing on a per store basis.

23. We remain unclear what this change would mean for the finances of rural and less well-off local authorities, and therefore ultimately for rates bills and other charges in these areas.

Conclusion

24. As we set out in our written submission to the Committee as part of its scrutiny of the Non-Domestic Rates Bill, in response to a question on this very issue during oral evidence, and in our subsequent Scottish Budget submission[14], SRC strongly supports the retention of the uniform business rate. We are therefore profoundly concerned at the vote at Stage 2 to end the UBR. Taking business rates out of the hands of Scottish Ministers and handing control over this £2.79 billion tax and the setting of the poundage rate and rates reliefs to each of Scotland's 32 councils is the wrong approach. We fear it could push rates up even further, add unnecessary complexity, and exacerbate the challenges faced by property-intensive sectors like retail with consequent impacts on high streets, local communities and retail jobs. We urge MSPs to vote to save UBR at Stage 3 of the Non-Domestic Rates Bill.

SRC – December 2019

[13] Above inflation rises in National Living Wage, the Apprenticeship Levy, two successive increases in the statutory minimum employers must contribute to staff pensions, the introduction of the Deposit Return Scheme, the higher large business rate supplement in Scotland compared to England, the upcoming restrictions on food promotions, upcoming obligations on food waste and on surplus food etc, let alone Brexit preparations

[14] 'Certainty, Competitiveness, Confidence: Retail industry recommendations for the 2020-21 Scottish Budget', SRC August 2019